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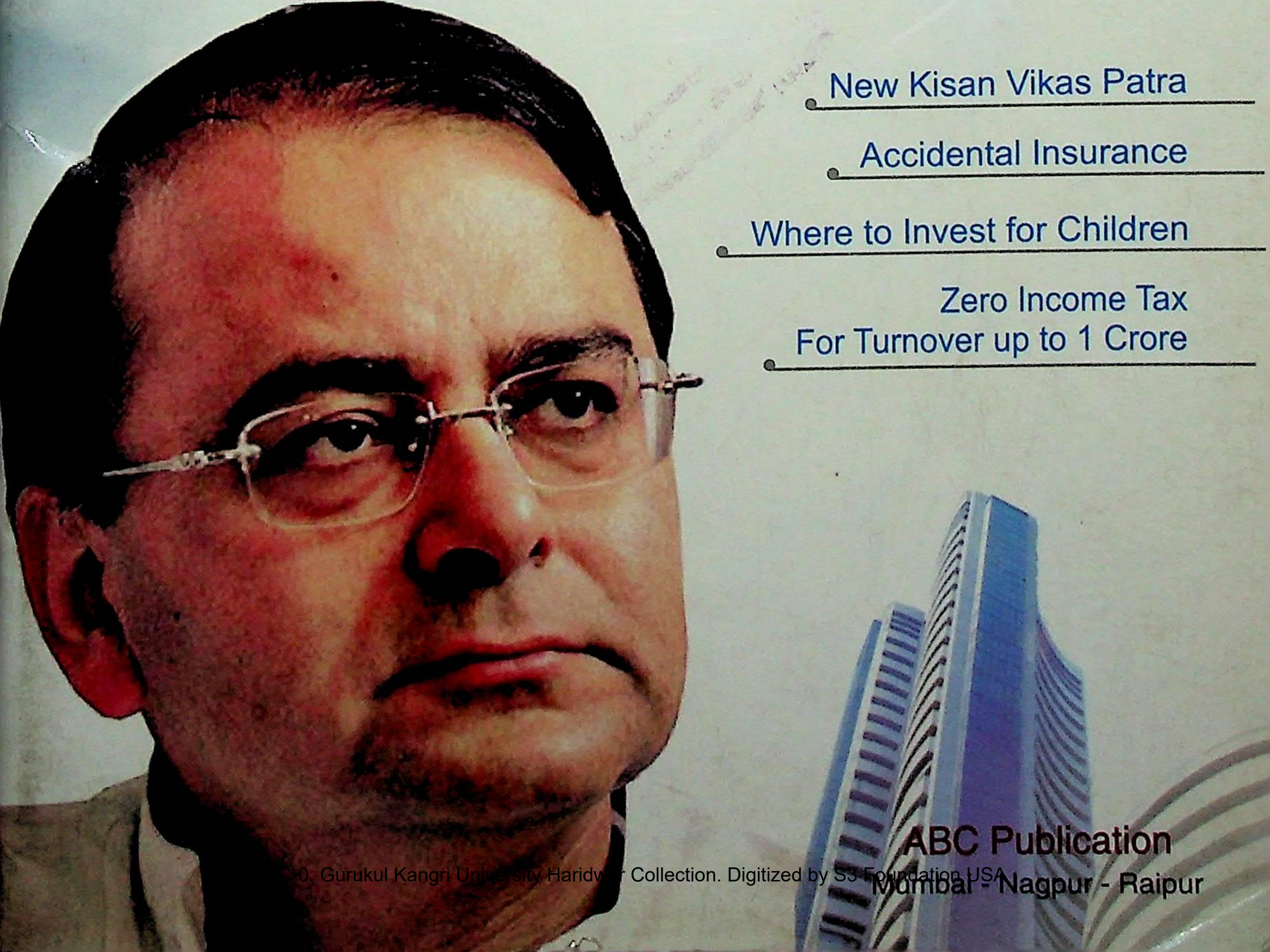
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- Basic exemption limit from Income Tax increased to ₹ 2.5 L
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- Limit of deduction of Interest on Housing loan U/s 24 increased to ₹ 2.0 L
- Long-term Capital gain from non-equity mutual funds be taxed at 20%
- 15% investment allowance for Investments in New Plant & Machinery
- A special taxation for the Real Estate & Infrastructure Investment Trust



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Part 1 - Income Tax

Part – 2 Investment Planning

Message from the Editor

Text of Income Tax Act 1961 is difficult to understand for a common man and it is also not possible for them to avail services of tax consultants, before taking any decision on the matter. To address their needs, we have tried to provide necessary information in-nut-shell in an easy language so that an assessee can calculate their personal Income Tax in normal situations and can do better tax and investment planning at the right time.

We are waiting for your valuable suggestions to make the book more convenient to all concerned.

Please feel free to drop your suggestions, feedback, and queries at contact@abcpublication.in.

Best Wishes,

A. Agrawal

Editor, ABC Publication

Disclaimer

All possible care has been taken while writing, printing and publishing the book. However, readers are advised to go through the Government's official publication of Income Tax Act before taking any decision in pursuance with this book. For any mistake our responsibility shall be limited to the cover price of the book only.

All disputes are subject to Raipur (CG) jurisdiction only.

ABC Publication

1 Income Tax - An Introduction

Income tax is levied on taxable income earned during previous year, at predefined rates, by the Central Government as per IT act 1961. Income tax is an annual tax on income. *The Indian Income Tax Act* (Section 4) stipulates that in respect of the total income of the previous year of every person, income tax shall be charged for the corresponding assessment year at the rates laid down by the Finance Act for that assessment year.

In India, income tax was introduced for the first time in 1860 by Sir James Wilson in order to meet the losses sustained by the government on account of the Military Mutiny of 1857. In 1886, agricultural income was declared tax-free. From *IT Act 1922*, system of assessment of tax in the assessment year on the income earned during previous year, was introduced.

Important Definitions

1. Assessee Sec.2 (7):

   'Assessee' is the person responsible for paying of income tax or any other due (as interest or penalties), as per IT Act 1961. It is not necessary that the assessee should have his own income, For example, in case of death of a person, the legal heir (similarly in case of foreigner or mad person or child) the representative, shall be treated as deemed assessee.

2. Person Sec.2 (31):

   Person word includes Individuals, Firms, Hindu Undivided Families(HUF), Association of persons (AOPs), Body of Institutions (BOIs), Local Bodies (Gram Panchayat, Municipality etc.), Companies, Artificial Jurisdictional Persons (Like God, Goddess etc.).

3. Previous Year Sec 3:

   The year in which income is earned is known as previous year i.e. the financial year ending on 31st March is called previous year.

4. Assessment Year Sec 2(9):

   It is the period of 12 months commencing from the 1st day of April immediately after the previous year. For example, for the previous year ending on March 31, 2014, the Assessment year will be 2014-15 (i.e. from April 1, 2014 to March 31, 2015). From above, it is clear that assessee himself makes self-assessment of tax on income earned during the previous year (2013-14), and pays the tax at the end of the previous year. The assessee files returns during the year 2014-15 and on basis of which assessing officer makes assessment of tax during the year 2014-15.This is the reason why the year 2014-15 is called *assessment year* for FY 2013-14.

5. Gross Total Income:

   The sum of Taxable income of all 5 sources (i.e. Salary, House Property, Business or profession, Capital Gain & others Sources) of assessee (after adjustment of Losses & clubbing of Income) is called Gross Total Income.

6. Total Income (Taxable Income) Sec.2 (45):

   Total/Taxable Income is the total amount of income chargeable to tax, computed after deducting permissible deductions under Chapter VI –A i.e. Sections 80A to 80U from the Gross Total Income.

2 Budget 2014– Important provisions : At a Glance

Personal Taxation

2.1 The slab rate of income tax is unchanged but basic exemption limit of income tax is changed as detailed below :--

Assessee Category	Applicable For Financial year 2013-14 / Assessment Year 2014-15	Applicable For Financial year 2014-15 / Assessment Year 2015-16
For HUF /AOP/BOI Individual	Taxable Income up to Rs. **2,00,000** – NIL	Taxable Income up to Rs. **2,50,000** – NIL
	From 2,00,001 to 5,00,000 – 10%	From 2,50,001 to 5,00,000 – 10%
	From 5,00,001 to 10,00,000 – 20%	From 5,00,001 to 10,00,000 – 20%
	Above 10,00,000 – 30%	Above 10,00,000 – 30%
For Sr. Citizen > = 60 years	Taxable Income up to Rs. **2,50,000** – NIL	Taxable Income up to Rs. **3,00,000** – NIL
	From 2,50,001 to 5,00,000 – 10%	From 3,00,001 to 5,00,000 – 10%
	From 5,00,001 to 10,00,000 – 20%	From 5,00,001 to 10,00,000 – 20%
	Above 10,00,000 – 30%	Above 10,00,000 – 30%
For Sr. Citizen > 80	Taxable Income up to Rs. **5,00,000** – NIL	Taxable Income up to Rs. **5,00,000** – NIL
	From 5,00,001 to 10,00,000 – 20%	From 5,00,001 to 10,00,000 – 20%
	Above 10,00,000 – 30%	Above 10,00,000 – 30%

Note - U/s 87 A, a small tax rebate of Rs. 2000 or amount of tax payable, whichever is lower, is allowed in Budget 2013 to small taxpayers whose total taxable income (total income) is up to Rs. 5 Lakh, in a financial year; this rebate shall continue for next years.

2.2 Increase in limit of deduction for interest from house property income – Section 24(b)

While computing self-occupied house property income, an assessee is eligible for deduction on account of interest paid on amounts borrowed for acquisition or construction of a house property provided such acquisition or construction is completed within a period of three years from the end of the financial year in which the capital is borrowed. The deduction was restricted to Rs. 1.5 Lakh in FY 13-14 in case of self-occupied property, whose annual value, is taken as nil. The limit of deduction for such interest has been increased to Rs. 2 Lakh from FY 2014-15.

2.3 Deduction in respect of LIP, PPF, etc. – Sections 80C, 80CCD & 80CCE

In FY 13-14 , an individual or HUF was eligible for a deduction from income of an amount not exceeding Rs.1 Lakh with respect to specified investments or expenditure. Such specified investments / expenditures include Life Insurance Premium, PPF, Deferred Annuity, ELSS, Tuition Fees etc. The limit of Rs. 1 Lakh is raised to Rs. 1.5 Lakh (w.e.f. FY 14 -15). The Finance Minister in his Budget Speech stated that in the PPF Scheme, annual ceiling will be enhanced to Rs. 1.50 Lakh per annum from Rs. 1 Lakh at present. In view of amendment to section 80C, the limit of the aggregate amount of deduction under sections 80C, 80CCC and 80CCD (1) contained in section 80CCE has been enhanced to Rs. 1.5 Lakh from the existing limit of Rs. 1 Lakh from FY 2014 -15. However, the limit for section 80CCC of Rs. 1 Lakh continues and similar limit of Rs. 1 Lakh has been introduced in section 80CCD (1).

2.4 Employer's contribution to NPS 80CCD

Employer's contribution to NPS by non-Central Government, employers are eligible for deduction up to 10% of salary in a financial year, irrespective of the employees' date of joining of employment and without any limit. The deduction in respect of employee's contribution is restricted to Rs. 1 Lakh within overall limit of Section 80CCE.

Capital Gains

2.5 Short-term/Long-term capital asset & rate of tax on capital gains – Sec. 2(42a), 2(29a) & 112

The period of holding for unlisted shares of companies and units other than units of equity-oriented funds to qualify as long-term capital assets should now (w.e.f. July 11, 2014) exceed 36 months instead of current 12 months.

Accordingly, these assets will now be treated as short-term capital assets if they are held by the assessee for 36 months or less before the date of transfer, subject to applicable relaxation provided in the explanation 1 to section 2(42A). Presently, under the proviso to section 112, an option is available to a taxpayer to pay tax at 10% on un indexed long-term capital gains or 20% on indexed long-term capital gains on transfer of units. For this purpose, the unit means unit of a mutual fund specified in section 10(23D) or of the Unit Trust of India as defined in explanation (b) of section 115AB. *This option in respect of such units has now been removed and the same will now be taxed at 20% after indexing the cost.* The reference of definition of 'unit' contained in section 115AB, in explanation (b) of section 112 has also been omitted.

The *Finance Bill, 2014* as passed by the Lok Sabha has inserted a new proviso in section 2(42A) to provide that the unlisted shares and units of a Mutual Fund shall continue to be deemed to be a long-term capital assets if they have been transferred during April 1, 2014 to July 10, 2014 after holding them for a period of more than 12 months (instead of more than 36 months earlier).

2.6 Capital Asset – Section 2(14)

Previously there was a controversy regarding the characterisation of income of a *Foreign Institutional Investors (FII),* registered as *Foreign Portfolio Investors (FPI)* under SEBI Regulations, as business income or capital gains.

To resolve the controversy, it is now specifically provided that securities held by a FII in accordance with regulations made under the *Securities and Exchange Board of India Act, 1992* shall be treated as '*capital assets'*. Thus, gains arising from transfer of such securities held by FII shall be treated as Capital Gains. This amendment is also applicable to FPI.

2.7 Any sum of money received as an advance or otherwise in course of the negotiations for transfer of capital asset is forfeited and if the negotiations do not result in transfer of such capital assets then such sum shall be chargeable to income tax under the income from other sources u/s 56 of *Income Tax Act 1961*.

2.8 Capital gains exemption for investment in residential house property – Sec. 54 & 54F

The existing provisions of section 54 dealing with capital gains arising on transfer of long-term capital asset, being a residential house, and section 54F dealing with transfer of long-term capital asset other than a residential house, provide for exemption from capital gains under section 45, subject to specified conditions, when the taxpayer within a period of one year before or two years after the date of transfer, purchases, or within a period of three years after the date of transfer, constructs, a residential house.

Previously there was a controversy as to whether the benefit of exemption is available in respect of purchase/construction of more than one residential house and whether such house has to be necessarily located in India.

It is now provided that the exemption under the aforesaid sections is available only in respect of one residential house and that should be located in India.

2.9 Capital gains exemption on investment in specified bonds – section 54EC

Section 54EC provides that where capital gain arises from the transfer of a long-term capital asset ('original asset') and the assessee has, within a period of six months after the date of such transfer, invested the whole or part of capital gains in the long term specified asset (specified bonds), such capital gains shall proportionately not be charged to tax. However, it was provided that the investment made in the long-term specified asset during any financial year shall not exceed Rs. 50 Lakh.

Many taxpayers had interpreted this provision to their benefit and invested Rs. 50 Lakh each in two successive years (while ensuring that both dates of investment fell within the specified time limit of 6 months) and claimed exemption up to Rs. 1 Crore. There was a controversy in this respect.

To resolve this controversy, it is now provided that the investment made by an assessee in the long-term specified asset from capital gains arising from transfer of one or more original assets during the financial year in which the original asset or assets are transferred and in the subsequent financial year should not exceed Rs. 50 Lakh.

2.10 Capital Gains – Section 45

In case of compulsory acquisition of capital asset, any enhanced compensation received by the order of the Court, Tribunal or other authority, is chargeable to tax in the year in which such amount is received by the assessee. It is proposed to provide that, if any amount of compensation is received pursuant to an interim order passed by the Court, Tribunal or other authority, such amount shall be taxable in the year in which the final order of such Court, Tribunal or other authority is made.

Corporate Taxation

2.11 Presumptive taxation from business of plying, hiring, or leasing goods carriage – Section 44AE

Under the previous provisions of section 44AE, for the purpose of presumptive taxation in case of an assessee engaged in the business of plying, hiring or leasing of goods carriages who does not own more than 10 goods carriages, Rs.5,000 and Rs.4,500 for every month or part thereof is taken as income per Heavy Goods Vehicle (HGV) and vehicle other than HGV respectively.

Now the distinction between HGV and vehicle other than HGV is nullified and it is provisioned to take Rs.7,500 for every month or part thereof per vehicle as income under this section.

2.12 Amount Not deductible while computing Total Income – Section 40(a)(ia)

The provision is now proposed to be in line with the provision applicable to TDS on payments to residents covered under section 40(a)(ia)o. w.e.f. AY 2015-16, all expenses subject to TDS will be disallowed u/s 40(a)(ia), in the same manner in which interest, royalty, etc. are disallowed. However, disallowance under this clause is provisioned to be restricted to 30% of the expenditure instead of 100% disallowable at present. Such sum shall be allowable in the year in which tax is deducted and deposited.

2.13 Investments in New Plant & Machinery – Section 32AC(1A) & (1B)

W.e.f. AY 2015-16, where a company, engaged in the business of manufacturing or production of any article or thing acquires or installs a new Plant & Machinery at a cost exceeding Rs. 25 Crore from AY 2015-16 up to AY 2017-18, there shall be allowed a deduction of 15% of the actual cost of the asset acquired and installed is allow eh.

Further, the assessee who is eligible to claim deduction under existing combined threshold limit of Rs.100 Crore for investment made in AY 2014-15 & AY 2015-16, shall continue to be eligible to claim deduction under the existing provisions of section 32AC(1).

2.14 Corporate Social Responsibility (CRS) – Section 37

It is provisioned to add Explanation 2 to section 37(1) to disallow any expenditure incurred on any activities related to CRS as referred under section 135 of the *Companies Act, 2013*, while computing taxable income, as it wouldn't be considered an expenditure incurred for the purpose of business or profession.

However, CSR expenditure of the nature described in Section 30 to Section 36 of the Act shall be allowed under those sections subject to fulfillment of the prescribed conditions, if any, specified therein.

2.15 Deduction in Respect of Capital Expenditure on Specified Business – Section 35AD

It is provisioned to include to new business as 'specified business' for the purpose of the investment-linked deduction so as to promote investment in these sectors – laying and operating a slurry pipeline for the transportation or iron ore; Setting up and operating a semiconductor wafer fabrication manufacturing unit, if such unit is notified by the Board in accordance with the prescribed guidelines. The date of commencement of operations for availing investments linked deduction in respect of the two new specified businesses shall be on or after April 1, 2014.

2.16 Deduction in respect of capital expenditure on specified business – Section 35AD

It is provisioned to amend the section to provide that any asset, in respect of which a deduction is claimed and allowed under section 35AD, shall be used only for the 'Specified Business' for a period of eight years beginning with the previous year in which such asset is acquired or constructed.

Where any asset, in respect of which such deduction is claimed and allowed, is used for a purpose other than the specified business during the specified period of eight years, the total amount of deduction claimed and allowed (as reduced by the amount of depreciation otherwise allowable for income-tax purposes) shall be taxable as business income of the taxpayer in the year of such use of the asset.

2.17 Extension of sunset date for power sector undertaking – Section 80IA

Previously, a deduction of profit was available for consecutive 10 years to an undertaking, if the undertaking:

- begins to generate power at any time during the period beginning 01/04/1993 and ending 31/03/2014
- starts transmission or distribution by laying a network of new transmission or distribution lines at any time during the period beginning on 01/04/1999 and ending on 31/03/2014
- Undertakes substantial renovation and modernization of existing network of transmission or distribution lines at anytime during the period beginning on 01/04/2004 and ending on 31/03/2014.

It is extended the above terminal date from 31/03/2014 to 31/03/2017.

2.18 Specific Taxation regime for Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (Invit)- Chapter XII – FA

A specific taxation regime is provisioned for two new categories of investment vehicles namely, the *Real Estate Investment (REIT)* and *Infrastructure Investment Trust* (INVIT). Business Trust means a trust registered as an REIT/Invit, the units of which are required to be listed on a recognized stock exchange in accordance with SEBI. Trust would be given a pass-through status.

2.19 Dividend Distribution Tax u/s 115O & 115R

Dividend Distribution Tax u/s 115O & 115R will be calculated on Gross Basis i.e. if the dividend amount distributed is Rs.85 then DDT will be Rs. 85*.15/(1-.15). So DDT payable u/s 115O & 115R will be Rs. 15 instead of Rs.12.75 as earlier.

2.20 Method of Accounting – Section 145

Central Government may notify Income Computation and Disclosure Standards for computing income under the heads 'Profits and gains of business or profession' and 'Income from other sources'.

Such standards are required to be regularly followed by the assessee and the income is required to be computed in accordance with such standards in order to avoid best judgment assessment under section 144.

Miscellaneous Provisions

2.21 Correction statement for tax deducted at source – Sections 200 &200A

Section 200(3) provides for filing of statement of tax deducted at source. A proviso has been inserted in sub-section (3) specifically providing that the deductor may file a correction statement for rectification of any mistakes or to add, delete or update information. Consequential amendment has been made to section 200A. The amendments shall take effect from oct 1, 2014.

2.22 Power to call for information by prescribed income-tax authority – Section 133C

Insertion of new section 133C - is made with a view to enable prescribed Income tax authority to verify the information in his possession relating to any person. It is provisioned to empower the tax authority to issue a notice to such person requiring him to furnish information or documents verified in the prescribed manner, which may be relevant to enquiry or proceeding under the Act.

2.23 Power of Survey – Section 133A

The Finance Act, 2014 extends the power of Income tax authority by inserting sub-section (2A) after sub-section (2). It is provisioned to authorize the Income-tax authority to carry out survey for the purpose of verifying that tax has been deducted or collected at source in accordance with the provisions under sub-heading B of Chapter XVII or under sub-heading BB of Chapter XVII.

However, the income tax authority acting under sub section (2A) cannot impound books of account or take inventory of stock or cash.

Further, the power of income tax authority to impound and retain in his custody the books of account or documents has been increased from 10 days to 15 days. w.e.f. oct 05, 2014.

2.24 Speculative Transaction – Section 43

An eligible transaction in respect of trading in commodity derivatives carried out in a recognized association, which is chargeable to commodities transaction tax, shall not considered a speculative transaction.

Assessee with the principle business of trading in shares shall not be allowed to carry speculation business.

2.25 Concessional tax rate of 15% on dividend received by Indian companies from specified foreign companies (shareholding of 26 or more) to continue without any sunset clause.

2.26 LIC Policy payments including bonus which are not exempt u/s 10(10D) will attract TDS @ 2% u/s 194DA if payment exceeds Rs1,00,000/-.

2.27 If any assessee fails to produce accounts and documents as required u/s 142(1) or will fully fails to comply with the direction u/s 142(2A) he shall be punishable with rigorous imprisonment for a term which may extend us to 1 year and with fine.

2.28 Tax returns need to be verified as against signed, by specified person.

Service Tax

2.29 New Exemptions

a. Services provided by operators of the common bio-medical waste treatment facility to a clinical establishment by way of treatment or disposal of bio-medical waste or the processes incidental thereto [entry 2B]

b. Services of life insurance business provided in relation to life micro-insurance product as approved by the *Insurance Regulatory and Development Authority*(IRDA), having maximum amount of cover of fifty thousand rupees [entry26A(c)]

c. Services received by the Reserve Bank of India, from outside India in relation to management of foreign exchange reserves [entry 41]

d. Services provided by a tour operator to a foreign tourist in relation to a tour conducted wholly outside India [entry 42]

2.30 Modifications in existing exemption entries

a. Services provided by educational institution to its students, faculty and staff [entry 9(a)]

b. Services provided to an educational institution by way of:

- Transportation of students, faculty and staff
- Catering including any mid-day meal sponsored by the Government
- Security or cleaning or house-keeping services performed in such educational institution and
- Services relating to admission or conduct of examination by such institution.

Earlier, *auxiliary educational services* as defined in Para 2(f) provided to educational institutions viz., any service relating to imparting any skill, knowledge, education or development of course content or any other knowledge enhancement activity whether for student or faculty or any other services which educational institutions ordinarily carry out themselves but may obtain as outsourced from any other person were exempt. Now services other than those specified above are taxable. Further, services in relation to renting of immovable property to an educational institution in respect of education were exempt and now taxable [substitution of entry 9 and omission of Para 2(f)].

The term *educational institution* is now defined to mean an institution providing services specified in section 66D(l) [para 2 (oa)].

c. Service by a hotel, inn, guest house, club or campsite, whether commercial or otherwise, by whatever name called, for residential or lodging purposes, having declared tariff of a unit of accommodation below one thousand rupees per day or equivalent [substitution of entry 18]

d. Service by way of transportation of organic manure and cotton, ginned or baled, by rail or a vessel or by road, from one place in India to another [insertion in/of entries 20 (j) and (k) & entry 21(e) and (i)]

e. Services by way of transportation of passengers with or without accompanied belongings, excluding for tourism, conducted tour, charter or hire, is now restricted to transportation by non air-conditioned contract carriage other than radio taxi [substitution of entry 23(b)]

Radio taxi means a taxi including a radio cab, by whatever name called, which is in two-way radio communication with a central control office and is enabled for tracking using *Global Positioning System* (GPS) or *General Packet Radio Service* (GPRS) [Para 2 (za)]

f. Services provided to Government, a local authority or a Governmental authority by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and up gradation. Earlier, such activities in relation to any function ordinarily entrusted to a municipality were exempt [Substitution of entry 25(a)]

g. Services by way of loading, unloading, packing, storage or warehousing of rice, cotton ginned or baled is now exempt. Earlier the exemption was restricted to such activities in relation to rice only [Substitution of entry 40]

Major changes in rates of DUTY (w.e.f. Jul 11, 2014)

A. Rate Changed

i. An additional duty of 5% is imposed on aerated waters containing added sugar falling under chapter heading 2202.10.

ii. Specific rate of duty on cigarettes is increased by 72% on cigarettes of length not exceeding 65 mm and by 11 % to 21% on other cigarettes.

iii. Basic excise duty is increased from 12% to 16% on pan masala, from 50% to 55% on unmanufactured tobacco and from 60% to 70% on jharda, scented tobacco, gutkha and chewing tobacco.

iv. Excise duty on branded petrol is reduced from Rs. 7.50 per litre to Rs. 2.35 per litre.

v. Excise duty of 6% is levied on writing and printing paper for printing educational text books instead of optional excise duty of 2% without CENVAT and 6% with CENVAT

vi. Excise duty on footwear of retail price exceeding Rs. 500 per pair but not exceeding Rs. 1,000 per pair is reduced from 12% to 6%.

vii. Excise duty on machinery for preparation of meat, poultry, fruits, nuts or vegetables, wine, cider, fruit juices etc. is reduced from 12% to 6%.

B. Full exemption is provided to:

i. LPG supplied to non-exempted category customers of IOL, HPCL and BPCL

ii. Specified raw materials and solar tempered glass used for manufacture of solar photo voltaic cells or modules

iii. Security thread and security fiber supplied to paper mills manufacturing security paper

iv. Parts consumed within the factory of production for manufacture of non-conventional energy devices

v. Reverse osmosis membrane element for water filtration or purification equipment

vi. Specified HIV/AIDS drugs and diagnostic kits supplied under National Aids Control Programme

vii. Education Cess and Secondary and Higher Secondary Cess (customs component) on goods cleared by an EOU into DTA

3 Permanent Account Number (PAN)

A 10-digit alphanumeric code allotted by Assessing Officer of Income Tax Department on laminated Card is called *PAN*. It is a permanent number so it does not change with change in address or place, but if Income Tax ward changes then it is necessary to inform the concerned (old/new) officials of Income Tax Department about it.

3.1 Under section 139 (A) following persons have to compulsorily apply for PAN:

(i) Whose total taxable income is more than the exemption limit from income tax (Presently Rs.2 Lakh for Male, Rs.2 Lakh for Female 2.5 Lakh for senior citizen)

(ii) Businessman whose total sale, turnover or receipt is or expected to be more than Rs. 5 Lakh in the previous year.

Apart from the above-mentioned persons, it is necessary to file return for persons falling under the following categories, under section 139 A (1A), without any limit on income: Charitable Religious Trust, Importer & Exporter as well as assesses of Central Excise, Sales Tax or Service Tax. If the above-mentioned persons don't apply for PAN in the scheduled time, a penalty of Rs. 10,000 can be charged under section 272B (1).

3.2 The person for whom PAN is not mandatory can also apply for PAN and use it as an identity card.

3.3 For PAN a person will have to submit an application in the prescribed form (*form No. 49*) along with proof of identity and Address & 1 Stamp size colour Photograph, by May 31st of the Assessment year in the office of U.T.I. or NSDL with a fee of Rs. 94 for normal case and Rs. 150 for urgent cases. A person who has applied earlier but has not received the PAN card can also apply again.

3.4 As per Income Tax Rule 114B it is mandatory to quote PAN for following Transactions:

- Sale, Purchase of Immovable Property valued at Rs. 5 Lakh or more
- Sale & Purchase of Motor Vehicle. (excluding 2 wheeler)
- Opening of Bank Account / Application for Credit Card / Telephone (landline or Cell)
- Payment of Hotel Bill for more than Rs. 25,000
- Cash Deposit Rs. 50,000 or more in a day in the Bank or Post Office
- Payment of Rs.50,000 or more to purchase Unit of Mutual Fund / Shares / Debentures / RBI bond
- Income tax Return , Challan for payment of Direct tax

3.5 If PAN is not allotted or is not mandatory for any person then he can submit declaration either in *form No. 60* or in a plane paper along with address proof. Farmers who do have income from other sources can also submit declaration through *form No. 61*. Minor children can utilise their parent's PAN. (with whom their income is clubbed).

3.5 If a person is having more than one PAN card he should immediately return it to the Income Tax Department. Under section 272B (2) a penalty of Rs.10,000 is charged if a person knowingly indicates a wrong PAN.

4 Income Exempt from Tax

Details of income exempt from tax (Tax free income) described in Section 10 of Income Tax Act, out of which, some important provisions are described in brief, are as follows:

Sec. 10(1)	Income from Agriculture is exempt. However, if Net Agriculture Income exceeds Rs. 5000, than it is required to be taken into account for slab purpose.
Sec. 10(2)	Share of income of Hindu Undivided Family for the Member is exempt.
Sec. 10(2A)	After assessment of tax of a partnership firm the income for its partners is exempt from tax.
Sec. 10(10D)	Any sum received from Life Insurance Policy including Bonus is exempt, except the following: (i) Any sum received from key man Insurance Scheme and other insurance scheme eligible for deduction u/s 80DD/DDA (ii)Any sum received from Life Insurance Policy issued after Apri 1, 2003 whose Annual Premium is more than 20% of sum assured and insured person is alive
Sec. 10(15)	Interest received from Post Office Saving Scheme & Govt. Relief Bond.
Sec. 10(16)	Scholarship received to meet out the Expenditure of Education.
Sec. 10(17)	Daily Allowance received by MLA/MP is exempt, but Salary received is Taxable. Other allowance received by MP is Tax free, but Allowance received by MLA is Tax Free up to a maximum limit of Rs. 2,000 per month
Sec. 10(20)	Income of Local authority, i.e., Panchayat, Municipal etc. is exempt.
Sec. 10(23C)	Income of University/Educational Institutional/Hospital or Medical Institution wholly or substantially financed by Govt. *Or* the Annual receipt of which do not exceed the prescribed amount Or which is approved by the competent authority is exempt.
Sec. 24(4)	Income of Trade Union or Association of Trade Unions from House Property or Income from other sources is exempt.
Sec. 10(25)	Income of statutory provident fund or an approved Superannuation fund or Gratuity fund is exempt.
Sec. 10(32)	Income of Minor child up to Rs. 1,500 is tax free; but if exceeds will be added to the parent's income.
Sec. 10(34)	Dividend distributed on or after Apr 1, 2003 by a Domestic Company is exempted from tax in the hand of investor
Sec. 10(38)	Any Long Term Capital Gain ; arising from transfer of equity shares of a Company or Units of an Equity Oriented Fund on or after oct 01, 2004, subjected to Securities, Transaction Tax are exempt from Tax for investor
Sec. 13(A)	Income of Political party from Capital Gains, House Property and other Sources are tax free

Note- Income exempt from tax, for retired /working employees are described in pages 23 & 30.

5 Method of Income Tax Calculation

For the convenience of readers, the Method of Income Tax calculation is described here in five steps as following and through a flow chart in the next page:

5.1 First Step - Calculation of Gross Total Income: Calculate Taxable Income arising from following 5 different sources separately as following :

(1) Income from Salary Head
(2) Income from House Property
(3) Income from Business & Profession
(4) Income from Capital Gains
(5) Income from Other Sources

The Gross Total Income is calculated after adjusting the losses and clubbing the income of other persons, if any with the sum of above-mentioned 5 sources of income

5.2 Second Step - Calculation of Total Income: Total income is calculated after deduction as shown in the eligible deductions of Chapter VIA from Gross Total Income. The Brief details of some important Deductions are as under:

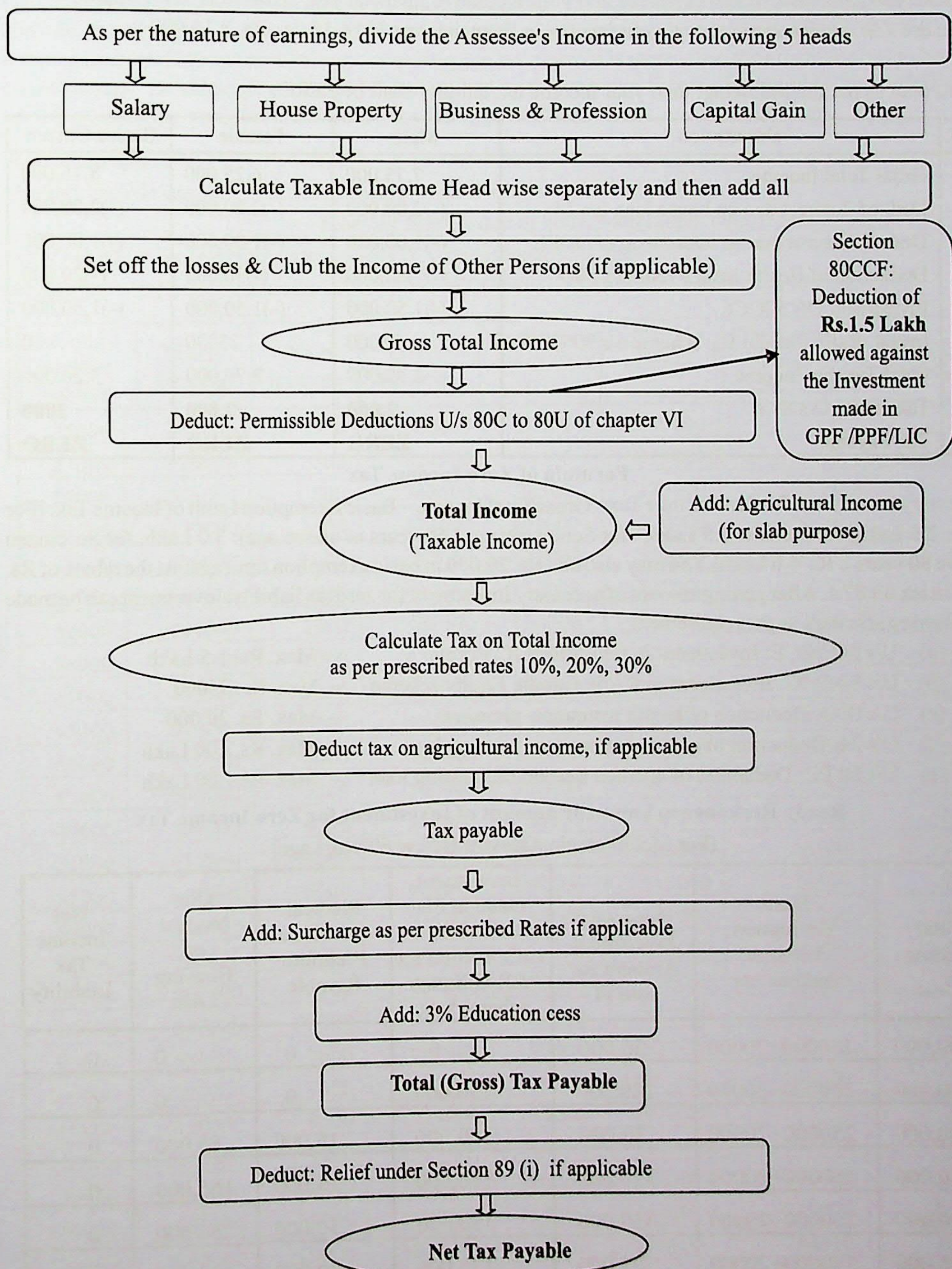
80C	Investment made in GPF/PPF/LIC/NSC/ELSS/Bank Fixed deposit for min. 5Yr, *NABARD BOND* etc. up to a maximum limit of Rs.1.5Lakh
80CCD	Contribution of Assessee and Employer towards ***New Pension System (NPS)*** of Central Govt. up to a max. limit of 10 % of salary in each case.
80CCE	Aggregate sum of investments made under section 80C, 80CCC & 80 CCD should not be more than Rs.1.5 Lakh but excluding contribution of employer towards New Pension System (NPS) up to a max. limit of 10 % of salary
80CCG	The deduction to the extent of max Rs. 25,000/ be allowed in respect of investment in Rajiv Gandhi Equity Scheme to new retail investor.
80D	Health Insurance Premium up to Rs. 15,000 for the health of self/wife, children & Additional Rs. 15,000 (Rs. 20,000 for Sr. Citizens) is allowed for health Insurance for mother, father; which may include max Rs. 5000 for preventive health check-up.
80DD	Expenses on Insurance Premium or treatment of dependent disables.
80EE	The deduction of max. Rs.1 Lakh towards interest payable on house loan of max. Rs. 25 Lakh, for acquiring a residential property worth max. Rs. 40 Lakh.
80G	Donations given to P.M./C.M. relief funds etc .

5.3 Third Step - Calculation of Tax on Total Income: Income tax is calculated at specified rates (0, 10%, 20%, and 30%) on taxable income. Though agricultural income is tax-free but if it is more than Rs.5,000 then it should be considered into total income, for slab purpose.

5.4 Fourth Step - Calculation of Tax Payable: After deducting rebate of income tax under section 88E (for those who have paid security transaction tax), Tax Payable is calculated.

5.5 Fifth Step - Calculation of Net Tax Payable: If applicable, add surcharge at prescribed rate, and then calculate Education Cess @3% on Tax plus surcharge. Thus the amount received will be called *Gross Tax Payable*. Now Deduct relief U/S 89(i), if any, from Gross Tax Payable & get Net Tax Payable.

6 Flow Chart of Income Tax Calculation



7 Formula of Zero Income Tax - (For Individuals &HUF only)

Suppose you are a male /female assessee and your income in financial year 2014-15 is Rs. 7,75,000
If you are a Sr. citizen assessee and your income in financial year 2014-15 is Rs. 8,15,000

If you plan as per the following; then your income tax liability shall be ZERO:

S.N.	Description	Male	Female	Senior Citizen
1	Gross Total Income	7,75,000	6,25,000	8,15,000
2	Ded. of Interest due on house loan u/s 24	(-)2,00,000	(-)2,20,000	(-)2,00,000
3	Ded.of Interest due on house loan u/s 80EE	(-)1,00,000	(-)1,00,000	(-)1,00,000
4	Deduction of Health Insur.Prem. u/s 80D	(-)30,000	(-)30,000	(-)20,000
5	Investment U/s 80CCE	(-)1,50,000	(-)1,50,000	(-)1,50,000
	Invest. Rajiv Gandhi Eq. scheme u/s 80 CCG	25000	25000	0
6	Total Taxable Income	2,70,000	2,70,000	3,20,000
7	Tax rebate U/s 87 A	**2,000**	**2,000**	**2000**
8	Tax Payable	**ZERO**	**ZERO**	**ZERO**

Formula of Zero Income Tax

Necessary Investment for Zero Income Tax= Gross Total Income – Basic Exemption Limit of Income Tax. [For Male: 2.5 Lakh, for Female: 2.5 Lakh, for Senior citizen (60 years or above age): 3.0 Lakh, for Sr. citizen (above 80 years): Rs. 5.0 Lakh].You may also add Rs. 20,000 in basic exemption limit against the rebate of Rs. 2000 in tax u/s 87A. After getting amount of necessary Investment for zero tax liability, Investment can be made in following schemes, as per requirement:

(a) U/s 80C/CCE: Investment in GPF/PPF/LIC/FD etc – Max. Rs. 1.5 Lakh
(b) U/s 80 CCG: Investment in RAjiv Gandhi Equity scheme – Max. Rs. 25000
(c) U/s 80D: Deduction of health insurance premium – Max. Rs. 30,000
(d) U/s 24: Deduction of accrued interest on housing loan – Max. Rs.2.00 Lakh
(e) U/s 80 EE: Deduction of accrued interest on housing loan – Max. Rs.1.00 Lakh

Ready Reckoner to know the amount of Investment for Zero Income Tax

(For Male/Female Assesses Below 60 years age)

Total Income	Basic Exemption Limit of income tax	Necessary Investment Amount for zero IT	Investment made in FD/ GPF /PPF / LIC/ Tuition fee &R G Equity scheme* etc.	Medical Insurance Premium Payable	Due Interest on Housing Loan	Net Income Tax Liability
300,000	250000+20000	30,000	0	0	0	0
400,000	250000+20000	130,000	150,000	0	0	0
500,000	250000+20000	30,000	150,000	15,000	65,000	0
600,000	250000+20000	330,000	150,000	15,000	165,000	0
700,000	250000+20000	430,000	150,000	30,000	250,000	0
775,000	250000+20000	505,000	175,000	30,000	300,000	0

8 Ready Reckoner of TDS for Employee

For employees, it is mandatory to submit the estimated Income Tax at the start of the year but employees usually don't do so and employer then deducts some more TDS as compared to previous year. But if the difference between amount deducted as TDS and actual income tax payable is more then the employee has to bear the consequences. So an employee should at least calculate the tentative Income Tax payable, as per following table & intimate the employer the amount to be deducted as TDS

Here in the table :

Monthly taxable Income = Monthly salary – Tax-free allowances - Prof.Tax.
– Monthly Interest due of house loan (applicable, if any)

Other Income = Income from other sources i.e. Interest from Bank and NSC etc.

Investment = Investment u/s 80 CCE (80C+ 80CCC+ 80CCD) (Max.1.5 Lakh) + u/s 80 CCG

Monthly taxable income	Yearly income	Other income	Gross income	Investment u/s 80CCE + 80 CCG	Total taxable income	Total tax – Rebate + Edu cess	Monthly TDS due
25000	300000	0	300000	30000	270000	0	0
27000	324000	500	324500	54500	270000	0	0
29000	348000	500	348500	78500	270000	0	0
31000	372000	1000	373000	103000	270000	0	0
33000	396000	1000	397000	127000	270000	0	0
35000	420000	2000	422000	150000	272000	210	20
37000	444000	2000	446000	150000	296000	2680	220
39000	468000	2000	470000	150000	320000	5150	430
41000	492000	3000	495000	150000	345000	7730	640
43000	516000	3000	519000	150000	369000	10200	850
45000	540000	3000	543000	150000	393000	12670	1060
47000	564000	3000	567000	150000	417000	15140	1260
49000	588000	4000	592000	150000	442000	17720	1480
51000	612000	4000	61600	150000	466000	20190	1680
55000	660000	5000	665000	150000	515000	28840	2400
60000	720000	5000	725000	150000	575000	41200	3430
65000	780000	6000	786000	150000	636000	53770	4480
75000	900000	6000	906000	150000	756000	78490	6540
80000	960000	7000	967000	150000	817000	91050	7590
90000	1080000	7000	1087000	150000	937000	115770	9650
100000	1200000	7000	1207000	150000	1057000	140490	11710
110000	1320000	9000	1329000	150000	1179000	165620	13800
120000	1440000	9000	1449000	150000	1299000	190340	15860
130000	1560000	9000	1569000	150000	1419000	215060	17920
140000	1680000	10000	1690000	150000	1540000	239990	20000
150000	1800000	10000	1810000	150000	1660000	264710	22060

9 Income from the Head of Salary

9.1 Salary means cash amount received by employee & monetary value of benefits provided by Employer free of cost or at concession rates. Here gross salary includes :

1. All cash receipts: Basic salary, taxable/tax-free allowances, bonus, commission etc.
2. Advance salary, Arrears (if income tax is not paid earlier)
3. Gratuity, one stroke pension etc. at the time of retirement
4. Valuation of perquisites; House (free of cost or on concession rates), car etc.
5. Profit in lieu of salary and contribution of employer in provident fund and NPS

9.2 Important Facts relating to salary:

(a) Any receipts will be called as *salary* only if the relation between receiver & payer is of Employer & Employee. For example, Salaries or Payments of MPs & MLAs does not come under salary head because Assembly & its members do not have a relation of Employer & Employee.

(b) From the perspective of income tax there is no specific difference between *Salary* & *Wages*. Employee or Labour receives some payment against their services, which is called Salary.

(c) As Salary is earned, it comes into the category of income, whether it is actually paid to the assessee or not during the financial year. This way, on the basis of Salary estimated or received, whichever is earlier, Salary becomes taxable e.g. in case of Govt. employees salary is due on first of next month, i.e. Jan month's salary will be due on first Feb. *So from the view of income tax salary of 12 months from Mar. 2012 to Feb. 2013 will be known as income of financial year 2013-14.* But for the employee whose salaries are due on the last day of the month, salary of 12 months from April 2012 to March 2013 will be known as income of financial year 2013-14.

(d) After retirement the regular monthly pension given to the employee by the employer is considered as Income from salary head. But in case of death of the employee family pension received by his dependents will be known as income from other sources.

9.3 How to calculate income from salary head?

(a) Basic salary, dearness allowance, house rent allowance & other tax-free/taxable allowances received in the financial year is combined.

(b) If the employees are getting perquisites then the amount obtained from valuation of perquisites is added in to (a) perquisites such as housing facility either free or on concession rates, medical allowance, domestic servant, transports allowance, gas either free or on concession rates, electricity, water, education etc.

(c) Profit in lieu of salary: Any amount obtained from present or past employer as per service agreement (because of transfer / end of service) & amount received from key men insurance. This way summation of (a), (b) & (c) will be called as *Gross Salary*.

(d) Now deduct the totally tax-free or partially tax free allowances as per section 10 from gross salary. Then deduct professional tax as per sec. 16.

The amount balance after (d) will be called as Income from salary head.

9.4 Fully Taxable Allowances:

1	Dearness Allowance	8	Tiffin Allowance
2	Interim Relief, if any	9	Deputation Allowance
3	City Compensatory Allowance	10	Servant Allowance
4	Non Practice Allowance	11	Pension / Annuity
5	Over Time Allowance	12	Subsistence Allowance
6	Bonus	13	Project Allowance
7	Honorarium	14	Fixed Medical Allowance

9.5 Partially / Fully Tax-free Allowances:

1. *Value of Leave Travel Concession (LTC) as per section 10(5):* If an employee himself, husband/wife, dependent parents, brother/sister and children are travelling within India during leave or after retirement and getting amount of LTC, then it will be tax free up to the limit of actual expenditure. But without travelling, encashment of LTC will be fully taxable.

2. *Tax paid on perquisites u/s 10(10CC):* If the employer wishes, he can pay the income tax due on perquisites given to employees. In this case, the amount incurred by the employer will be tax-free for the employee.

3. *HRA U/s 10(13A):*
   1. If residing in rental house: Minimum of following 3 (a, b, c) will be the tax-free portion of HRA
   (a) Amount received as HRA
   (b) Difference amount of rent paid & 10% of salary
   (c) 40 % of salary (for other cities), 50% of salary for metros

   Note (i) where salary = Basic + DA + GP (If DA is taken for calculating pensionary benefit)
   (ii) If residing in a rented house, for some months, not for the whole year then the salary of corresponding months will be considered for the above calculation
   (iii) If HRA is up to Rs.3,000 p.m. then rent receipt is not required to submit to DDO.

   2. If residing in own house, the amount of HRA received will be fully taxable.

4. Details of partially / fully tax free allowances u/s 10(14):

Particulars of Allowances	Tax free Portion
Uniform Allowance	To the extent such expenses are actually incurred
Travelling Allow. on tour/transfer	To the extent such expenses are actually incurred
Washing allowance	To the extent such expenses are actually inc urred
Conveyance allowance	To the extent such expenses are actually incurred
Compensatory (helper) allowance	To the extent such expenses are actually incurred
Transport Allowance	Rs. 800 per month for normal, Rs. 1600 for disabled
Tribal area Allowance	Rs. 200 per month (in some areas)
Children education Allowance	Rs. 100 per month for two children
Hostel expenditure Allowance	Rs. 300 per month for two children
Underground Allowance	Rs. 800 per month

10 Valuation of Perquisites

From year 2003, the net expenditure (after deducting the amount recovered from employee in lieu of the facility, if any) incurred by the employer for providing the facilities (perquisite) to the employee, will be considered as *Valuation of Perquisites*.

Valuation of Housing facility as per rule 3(1)

Facility	Valuation	Remark
1) Free housing facility		
A) Unfurnished i) Central or State Govt. employee	Rent (licence fee) as prescribed by Govt. rule	1) House includes: flat, house, farm - house, ship, floating motel, caravan, hotel, guest house etc.
ii) Other employees- if a) House - owned by employer	15% of salary (for big cities) 10% of salary (Medium city) 7.5 % of salary for other cities	2) Big cites: as per 2001 census, cities having population more than 25 Lakh
b) House -Taken on lease rent by employer	Actual lease rent or <u>*15%*</u> of salary, whichever is *less*	3) Medium city: if population is more than 10 Lakh but not more than 25 Lakh
B) Furnished – if i) Furniture- owned by employer	10% of cost of furniture + (A) as the case may be	4) Furniture: includes TV, Fridge, AC & other home appliances.
ii) Furniture- hired by employer	Actual furniture hire charges + (A) as applicable	5) Salary = Basic + Bonus + taxable Allowance + Commission + DA & DP (If considered for calculation of retirement benefits) but excluding following: (i) Contribution of employer in provident fund (ii) Tax -free allowances & valuation of Perquisites
C) Accommodation provided in a Hotel.	24% of salary or hotel rent, whichever is less	
2) Housing facility at concession rate	Valuation as per Sr. No. 1 {i.e. A/B/C } – Amount recovered from employee	
3) If mining area or Offshore: If housing provided to employees (working in Oil mines or project work area) at remote area or offshore sites then.	Valuation will be tax -free	(6) Remote area means: Such place which is at a distance of 40 km or more from the city having population up to 20,000 (as per new census)

Note: If an employee gets free/concession housing facility at place of transfer, in addition to old place of posting, then least valuation of any of the houses, shall be taken as perquisites for a period of 90 days; but after 90 days, valuation of both the houses will be added & shall be treated as perquisite.

Valuation of Facility of Motor vehicle (Car) / Driver [Sec 17 (2) (viii)]

These Perquisites became taxable after abolition of FBT w.e.f. 01/04/2009 --- **as per Rule 3(2)**

I. If Motor Car is Owned by employer & running and maintenance expenses are incurred or reimbursed by the employer	
Usage Purpose	Perk Value
Official purposes only	No perquisite, if specified conditions are satisfied
Private purposes only	Actual expense incurred by the employer Add: 10% p.a of Actual Cost of Car or Hire charges of Car Add: Salary to Driver Less: Amount recovered from the employee
Partly Official & partly Private purposes	Up to 1600CC: Rs 1,800 p.m. Above 1600CC: Rs. 2,400 p.m. Add: If driver is provided : Rs.900 p.m. Less: amount recovered from employee
II. If Motor Car is Owned by employee & running and maintenance expenses are incurred or reimbursed by the employer	
Official purposes only	No perquisite, if specified conditions are satisfied
Private purposes only	Actual expense incurred by employer as Less : Amount recovered from the employee
Partly Official & partly Private purposes	Actual expense incurred by employer Less: Amount recovered from employee Less: Up to 1600CC : Rs. 1,800 p.m. Above 1600CC: Rs. 2,400 p.m. Less: If driver provided : Rs. 900 p.m.
III. If Motor Car is Owned by employer & running and maintenance expenses are incurred by Employee	
Official purposes only	No perquisite, if specified conditions satisfied.
Private purposes only	10% p.a. of Actual Cost of Car or Hire charges of Car Add: Salary to Driver (if paid by employer) Less: amount recovered from employee
Partly official & partly private purposes	Up to 1600CC: Rs 600 p.m. Above 1600CC: Rs 900 p.m. Add: If driver is provided : Rs.900 p.m. Less: Amount recovered from employee

Perks for ESOP Schemes (at the time of exercising the option) [Sec 17 (2) (viii)]

a) *For Listed Equities:* Perk Value of listed sweat equity shares allotted or transferred free of cost or at concessional rate shall be average of opening and closing price of shares listed on stock exchange on date of exercise of option less any amount recovered from the employee.

b) *For Unlisted Equities:* Perk Value of unlisted sweat equity shares and other security allotted or transferred free of cost or at concessional rates shall be the fair market value as determined by Category-I Merchant Banker on the date of exercise of the option or any earlier date, not being earlier than 180 days than the date of exercising, less amount recovered from the employee.

Facility of Gardener, guard, sweeper or private assistant:

As per rule 3(3): In reference to this facility, net cost incurred by the employer will be taken as valuation of perquisites.

Interest-free loan or loan on concessional interest rates:

As per rule 3(7) (i): If the employer provides loan (interest free/ concession interest rate) of Rs. 20,000 or more to the employee or his family members, then valuation of perquisites is as follows:

The sum equal to the interest computed at the rate charged per annum by the SBI, as on the 1st day of the relevant previous year with respect to loans for the same purpose advanced by it. The interest shall be computed on the max. outstanding monthly balance.

Note: Valuation of loan taken for the treatment of serious illness (notified in rule 3(A)), will be zero.

Facility of computer or other movable assets provided by employer :

As per rule 3(7) (vii):

(i) Laptop or computer provided by the employer is not taken as perquisites.

(ii) If the employer gives the facility to an employee for using other movable assets, then valuation of perquisites will be equivalent to 10% of cost of the movable asset or actual amount of rent, whichever is higher.

Facility of transfer / sale of movable assets on concessional rates - As per rule 3 (7) (viii): If the employer transfers/sells movable assets to his employee on free/ concessional rate, then its valuation = cost – depreciation – amount paid by the employee (if any). Here depreciation is taken for every complete year, 20% for motorcar, 50% for electronic goods and 10% for other goods.

Employer Contribution in excess of Rs.1 Lakh to approved superannuation fund. [Sec 17(2) (vi)]

Free food and beverage to the employee other than provided during working hour at office on business premises or through paid vouchers. [rule 3(7) (iii)]

Gifts or voucher except when it is below Rs. 5000 in aggregate during the previous year

Membership fee, annual fees and expenditure incurred in a club, which is charged to a credit card except when it is incurred wholly and exclusively for business purposes

Note:

(1) As per rule 26A (2), DDO has to provide information relating to the valuation of perquisites, truly & completely in *Form No.* 12BA, if salary of employee is more than Rs.1, 50,000, or in *Form No.* 16, if salary of employee is less than Rs. 1,50,000.

Following perquisites are taxable only in the case of specified employee

Specified employees mean employees who are either directors, or persons having substantial interest in the company or whose taxable income under the head salary is more than Rs. 50,000.

Water, electricity & gas facility:

As per rule 3 (4): If water, electricity or gas facility is provided to employee or their family members for domestic use, and

(a) If facilities provided by employer of their own resources, then net manufacturing cost to employer will be taken for valuation of perquisites.

(b) If employer provides these facilities with the help of out-side agencies, then net expenditure incurred by employer will be taken for valuation of perquisites.

*Free or concessional educational facilities:

As per rule 3 (5): Actual expenses incurred by the employer for providing free or concession educational facilities will be taken as valuation of perquisites, or if the employer provides these facilities by own educational institution or other educational institutions then valuation of perquisites will be decided with reference to cost on such education in nearby institution. If above expenses are limited up to Rs. 1000 per child per month then valuation of perquisite is zero.

Medical Expenses: [Sec 17 (2) proviso (v)]

Medical allowance paid to an employee in cash is taxable. Reimbursement of expenditure incurred on medical treatment of an employee or his family member in a hospital (other than a hospital maintained by the employer or Govt. approved hospital) exceeding Rs.15, 000 in a previous year shall be a taxable perquisite.

Family for this purpose means : (i) spouse and children
(ii) Parents / brother / sisters, if wholly or mainly dependent on the individual employee.

Tax-free Perquisites

- Medical expenses or Reimbursement to expenses for the treatment of employee & his family members in the Employer's own hospital or government approved hospitals.
- Premium paid in medical insurance scheme (as per section 80D) for health risk of employee & his family members.
- Telephone facility at the residence of employee, transportation facility to the employee from house to office/ factory.
- Providing tickets/ passes to the employees on free/ concessional rates of Railway/ Airlines.
- *As per section 10(CC):* If the employer wishes he can pay the income tax payable on non monitory perquisites (either partially or fully) on behalf of employee to the income tax department. In this situation, the amount paid as income tax by the employer shall not be added to the employee's salary.

11 Simple Method of Income Tax Calculation for Employees

(1) First of all calculate the Taxable Salary (excluding tax free allowance such as Transport allowance, WA, Tax free portion of HRA, PT etc.).

(2) If you have only one house, which is self occupied and purchased/ constructed by taking home loan then deduct the interest due on home loan max. up to 3 Lakh.

(3) Add Income from other Sources such as Interest received from bank, NSC etc.

(4) If any capital asset is sold during the year then calculate the Capital gain and add it.

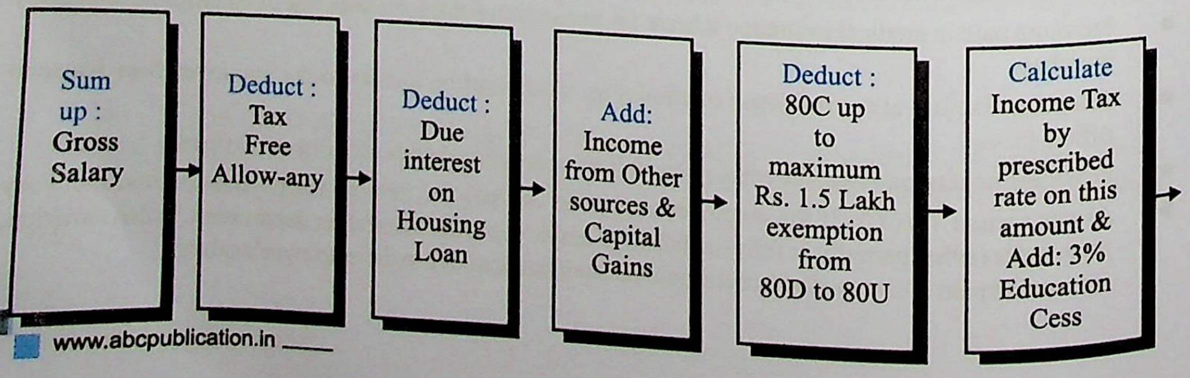
(5) Thus, the amount obtained will be called as *Gross Total Income.*
Gross Total Income = Total salary – Tax-free allowances – Professional tax – Interest Due on housing loan + Income from Other sources + Capital Gain

(6) Claim deductions (under chapter VI), as applicable, from Gross total income:-

Section 80C	Investment made in GPF/PPF/LIC/NSC/ELSS/ Bank Fixed deposit (for min. 5Yr) etc. up to a maximum limit of Rs.1.5 Lakh
Section 80CCD	Contribution of assessee & Employer ; toward New Pension scheme of Central Govt. up to a max. limit of 10 % of salary (Pay + Grade Pay + DA), allowed separately.
Section 80CCE	Aggregate amount of investment made under section 80C, 80CCC & 80CCD should not be more than Rs.1.5 Lakh but excluding contribution of employer towards NPS up to a max. limit of 10 % of salary
Section 80CCG	Deduction to an extent of max Rs. 25,000 be allowed from gross total income in respect of investment in specified listed equities in Rajiv Gandhi equity scheme to new retail investor.
Section 80D	Medical Insurance Premium up to Rs. 15,000 for the health of self/wife, children & Additional Rs. 15,000 (Rs. 20,000 for Sr. citizens) will be allowed for Medical Insurance for mother, father from FY 08-09
Section 80DD	Expenses on Insurance Premium or treatment of dependent disables
Section 80E	Interest paid on education loan for higher education of self/ Spouse /Children
Section 80G	Donations given to P. M./ C.M. relief funds and others
Section 80TTA	Interest received from savings account of bank//PO up to Rs.10,000

(7) Calculate *Taxable Income* as:
Total taxable income = Gross total income – Deduction from Sec. 80C to 80U.

(8) Calculate income tax by new applicable rates and add 3% Education cess on it and if total income is up to Rs. 5 Lakh then *deduct rebate up to Rs. 2000 u/s 87A* and you will get amount of net tax payable.



Example: If during the financial year 2014-15, Mr. Ram Kumar Sharma of Nagpur received :

BASIC PAY	*3,00,000*	*LIC*	*10,000*
Grade Pay	*1,00,000*	*NPS*	*48,000*
DA	*80,000*	*Children Tuition Fees*	*50,000*
CLA	*2,880*	*Donation u/s 80G*	*5,000*
HRA	*40,000*	*Health insurance u/s 80D*	*15,000*
TA	*19,200*	*Bank Fixed Deposit*	*25,000*

He has paid Rs. 2500 as professional tax and Rs. 72,000 as house rent. Interest accrued housing loan taken by him Rs. 29,000 &repaid25,000 as Principal of housing loan. Interest received savings bank account Rs. 14,000 and invested Rs. 40,000 in Rajiv Gandhi Equity Scheme, employer contributed Rs. 48,000 in new pension scheme. Calculate the IT payable in this case..

Solution:

(1) Add all receipts as salary -

Basic + Gr Pay + DA + CLA + HRA + TA + NPS = Gross Salary

3,00,000 + 1,00,000 + 80,000 + 2,880 + 30,000 + 19,200 + 48000 = 5,90,080

Deduct: Tax-free allowance u/s 10

(a) Transport Allowance @ Rs.800 p.m. 9,600

(b) Calculation of Tax free Portion of HRA

(i) HRA Received 40,000

(ii) Rent paid – 10% of Basic+Gr.Pay +DA

(72000) - (48,000) 24,000

(iii) 40% of Basic + DP + DA(3,00,000 + 1,00,000 + 80,000) 1,92,000

Tax free portion of HRA i.e. Minimum of (i) (ii) & (iii)………… 24,000 -33,600

Deduct: Tax free allowances u/s 10 (HRA+ TA)……………………………

Deduct Professional Tax u/s 16(iii) 2,500 -2,500

(2) Income from Salary Head **5,53,980**

(3) Deduct Income form House Property : Due Interest on borrowed capital -29,000

(4) Add: Income From Other Sources (Savings bank account Interest) 14,000

(5) **Gross Total Income** **5,38,980**

(6) Deductions u/c VI A

(a) Investment made U/Sec 80C –

LIC Premium	10,000
Payment of Housing Loan Principal	25,000
Tuition Fees	50,000
5 year Bank Fixed Deposit	25,000
Total Investment U/S 80C	1,10,000

(b) Contribution of employee u/s 80CCD 48,000

(c) Total Invest. Eligible for deduction u/s 80CCE 1,50,000

(d) Contribution of employer u/s 80CCD 48,000

(e) Premium paid for Mediclaim policy u/s 80D 15,000

(f) Donation u/s 80G 5,000

(g) Deduction u/s 80CCG Rajiv Gandhi Equity Scheme 20,000

(h) Deduction u/s 80 TTA – Interest from Savings account 10,000 2,48,000

Total permissible Deduction U/c VI A i.e. total of (a)(b)(c)(d)(e)(f)(g)&(h)

(7) Total Income (Taxable)……………………………………………… **2,90,980**

(8) Total Tax (i) First Rs.2,50,000 -------------- Nil

(ii) Next Rs. 40,980 -------------- 10 % -------------- Rs. 4098 4,098

(9) Deduct: Rebate in tax u/s 87 A ……………………………… **2,000**

(10) Add: Education Cess @ 3%……………………………………… 63

(11) Net Tax payable for the Fy 2014-15 will be **2,161**

12 Provision of Income Tax for Retired Employees

(1) Exemption in income tax: The basic exemption limit is Rs.3,00,000 for the senior citizens (who have attained age of 60 years, any time in the FY starting from aprl 1, 2014 to Mar. 31, 2015). In case of an individual, being a resident of India, *aged 80 years* or more at any time during the financial year (2014-15), the basic exemption limit is Rs. 5,00,000.

(2) Pension: Monthly pension is taxable.

(3) Death cum retirement gratuity : As per section 10 (10) any Amount received by employees in Govt. and local corporations, death-cum-retirement gratuity will be tax-free without any limit. For other employees, maximum tax-free amount will be Rs.10 Lakh or 15 days wages for every completed year of service calculated on last drawn wages, whichever is higher.

(4) Commutation of pension:

(i) Section 10 (10A (I)): Amount received in the form of commutation of pension by employees in Govt. & Local Corporations will be totally tax-free.

(ii) Section 10 (10A(ii)):- Tax-free amount for other employees are as following:
(a) If gratuity received : 1/3 of commutation of pension
(b) If gratuity not received : 1/2, of commutation of pension

(iii) Section 10 (10A (iii)):- Commutation amount received from *Jeevan Suraksha Policy of LIC* will be totally tax-free but pension amount from this scheme will be taxable.

(5) Encashment of leave or leave salary as per Section 10 (10AA):

(A) Amount obtained from encashment of leave during service is taxable.

(B) Amount obtained from encashment of leave at the time of retirement, resignation or death will be totally tax-free. For other employees tax-free amount will be the least of the following as per section 10 (10AA) (ii)

- Actual receipt of encashment of leave
- Balance leave @ 30 days per year at the time of retirement valuation
- Average salary of 10 months [average Monthly salary (Basic + DA) of 10 months exactly prior to retirement]
- Rs. 3, 00,000

(6) Compensation on retrenchment as per Section 10 (10B):
As per rule at the time of retrenchment the least value of the following will be allowed for deduction

- Actually received compensation amount
- Amount calculated as per section 25 F (b) of *Industrial Dispute Act 1947*, 6 months & 15-days/ working year calculated monthly average salary.
- Rs. 5,00,000 but schemes approved by Central Govt. will be fully tax-free.

(7) Payment on voluntary retirement: as per Section 10 (10C):
Amount received on voluntary retirement by employees of Public company or other companies, co-operative committee, university, notified institution of State or Indian Govt., up to maximum limit of Rs.5, 00,000.

(8) Receipt from provident fund as per Section 10 (11):
(1) The amount received from the approved provident fund (with interest) is totally tax-free. Accrued interest on retired person's deposit in special schemes of post offices will be tax-free as per section 10 (15).

13 Calculation of Relief u/s 89 (i)

Generally, after revision of pay scale, employees receive arrears. This is the amount which was due for payment, against previous year's salary. On account of receipt of such arrears, *Taxable Income* of that year increases and generally due to slab difference. it causes a substantial increase in income tax liability. Thus employees suffer financial losses without any mistakes on their part to avoid such problems, IT department allows the assessee to recalculate the income tax after adding the amount of arrears in respective year's taxable income and calculate the proportionate increase in income tax liability, year wise and finally the difference is claimed as relief.

First we calculate tax liability increased due to the addition of arrears in the current year income & then calculate (sum of) Tax liability increased due to addition of arrears, in the respective previous year's taxable income. The difference of X-Y is called *relief*, i.e., relief from the payment of the excess amount of tax, which is finally adjusted from current year's total tax liability calculated including arrears.

Method of calculation of relief u/s 89(i)

First of all divide arrears year wise (in the year it was due for payment). Collect the information of total taxable income, investment and deduction allowed and the information of rates of income tax applicable in previous years. Now calculate the relief of 89(i) by putting correct information in Table A & Annexure – 1 of *Form no. 10E.*

(1) Calculate the total income of current year without adding arrears — A
(2) Write the amount of arrears — B
(3) Calculate the total income by adding (A) & (B) — C
(4) Calculate tax on the total income (C) — D
(5) Calculate tax on current year income (A) — E
(6) Calculate the difference between (D) & (E). This will be the net tax liability on account of arrears as per current rates (X= D- E) — X
(7) Now assuming that arrears would have been received in the previous years, calculate the net tax liability which would have been arisen in that previous year This can be calculated by substituting correct information in Table A of Form 10 E — Y
(8) Now calculate Z=X–Y. This will be the relief amount u/s 89(i) & will be deducted from total taxability of current year, calculated incl. Arrears — Z

Example: Suppose an employee Mr. Ashok Sharma receives salary as per following in year 2014-15

Basic	*2,90,000*	*Investment done- * GPF*	*48,000*
Grade Pay	*63,800*	** Donation in P.M. Relief Fund*	*800*
DA	*66,000*	** Tuition Fees*	*7,250*
HRA	*15,000*	** Bank Fixed deposit*	*20,000*
TA	*9,600*	** Other LIC Premium*	*60,000*
ARREARS	*75,000*	** Interest on NSC*	*1,750*
TOTAL SALARY	*5,19,400*	** Repayment of House Loan*	*13,000*

Other than this Ashok Sharma has paid Rs. 60,000 as house rent, Rs. 2,500 as P.T., house loan Principle Rs. 13,000 is paid & accrued interest on house loan for 12-13 is Rs. 36,000, which is not paid in actual. And Interest of Rs. 1200 earned against Bank Fixed Deposits. Arrears of Rs. 75,000 earned, details as follows:

S.N.	*Particular year of Arrear*	*Arrears*	*Related year's total taxable income*
1.	*2007-08*	*35,000*	*1,05,850*
2.	*2008-09*	*12,500*	*1,45,230*
3.	*2009-10*	*13,250*	*1,55,250*
4.	*2010-11*	*14,250*	*1,65,450*

So calculate the relief under section 89 (i) and total income tax payable in FY 2014-15

Statement of Taxable Income & Net Tax Payable For The Financial Year 2014 -15

Name	Ashok Sharma	Father's name	Shri K. Sharma
Designation	Asstt. Teacher	Place	Nagpur

A: INCOME FROM SALARY HEAD

	Total Receipt		Total Receipt		
1. BASIC PAY	2,30,000	6. LTC	0		
2. Gr. Pay	63,800	7. other	0		
3. D.A.	66,000	8. Bonus	0		
4. H.R.A.	15,000	9. ARREARS (P.Y.)	75,000	GROSS	
5. Con. All.	9,600	10. IR	0	SALARY	**5,19,400**

11. *ADD: Valuation Of Perquisites U/S 17(2) From Income Tax* — 0

12. *LESS: Allowances To The Extent Exempt (U/S 10)* — (-) 24,600

(a) LTC — Con. All. 9,600 — WA 0 — 9,600

(b) Less : HRA u/s 10(13A) & rule 2A — 15,000

(i) Actual Received — 15,000

(ii) Rent Paid – 10% (Basic + DA+GP) (60000-41980) — 18,020

(iii) 40/50% of Salary (Basic + DA+GP) — 167,920

13. **LESS : U/S 16(iii) Professional Tax** — 2,500 — (-) 2,500

14. **Income under the Head of Salary** — 4,92,300

B : INCOME FROM HOUSE PROPERTY (Self Occupied Or Let-out) — (-)36,000

1. Interest on House Loan U/S 24 — 36,000

C : INCOME FROM OTHER SOURCES — 2,950

i. Bank / Post Office Interest — 1,200

ii. NSC Interest — 1,750

D : INCOME FROM BUSINESS HEAD — 0

E : INCOME FROM CAPITAL GAIN — 0

F : GROSS TOTAL INCOME — **4,59,250**

G : DEDUCTION UNDER CHAPTER VIA

a. u/s 80C : Investment by assessee in following scheme — gross amount

i. GPF/PPF — 48,000

ii. LIC + GIS + PLI + ULIP — 60,000

iii. Interest on NSC — 1,750

iv. Children tuition fees — 7,250

v. Repayment of House Loan (PRINCIPLE) — 13,000

vi. Bank Fixed Deposit — 20,000

SUB TOTAL — 1,50,000

b. LESS : Deduction u/s 80 CCE (i+ii+iii) Maximum Rs. 1,00,000 — 1,00,000

c. U/s 80 TTA : Interest from Bank Savings A/C — 1200

d. U/s 80 G : Donation — 800

Total — 1,02,000

H : TOTAL INCOME (TAXABLE) ROUNDED OFF TO MULTIPLE OF 10 — **3,57,250**

I. TAX ON TOTAL INCOME (CALCULATION OF TAX) — **10,725**

J. DEDUCT REBATE OF INCOME-TAX U/S 87 A **2,000**

K. TOTAL TAX PAYABLE **8725**

L. ADD: EDUCATION CESS 3% **262**

M. LESS : RELIEF U/S 89(i) — **(-) 1,407**

N. NET TAX PAYABLE — **7580**

Form No. 10 E

Particulars of income under section 192 (2A) for year ending March 31, 2013 for claming relief under section 89(i) by a Government Employee

1. Name & address of the Employee ASHOK SHARMA
2. PAN __________________________ APPLIED
3. Residential Status __________________ INDIVIDUAL

Particulars of Income referred to the rule 21A of the Income Tax Rules 1962 during the previous year relevant to assessment year 2013-2014

1. (a) Salary received in arrears in accordance with the provision of rule 21A(2) 75,000
   (b) Payment in the nature of gratuity in accordance with the prov.of rule 21A(3) Nil
   (c) Payment in the nature of compensation in accordance with the Provo rule 21A (4) Nil
   (d) Payment in commutation of pension in accordance with the Provo rule 21A (5) Nil
2. Detailed particulars of payments referred to above may be given in annuxior

** ***

Signature of Employee

VERIFICATION

I, ASHOK SHARMA do hereby declare that what is stated above is true to the best of my knowledge and belief.

Verified today, the ....31st day of MARCH 2013

Place: NAGPUR Date 31/03/2013

*****

Signature of Employee

TABLE A

Previous year (financial year)	Total income of the relevant previous year	Salary Received in Arrears of the Relevant Previous year	Total income increased by Arrears	Tax on Total income as per col.2	Tax on Total income as per col.4	Difference
1	2	3	4 = 2+3	5	6	7 = 6-5
2007-08	1,05,850	35,000	1,40,850	0	3178	3178
2008-09	1,45,230	12,500	1,57,730	0	796	796
2009-10	1,55,250	13,250	1,68,500	0	876	876
2010-11	1,65,450	14,250	1,79,700	561	2029	1468
	TOTAL	75,000			TOTAL	6318

ANNEXURE –1 ARREARS SALARY

1. Total income (excluding salary received in arrears)	2,83,450
2. Salary received in arrears (total)	75,000
3. Total income (as increased by salary received in arrear as per item 2)	3,58,450
4. Tax on total income (as per item 3) incl: Edu.cess @3%	16,320
5. Tax on total income (as per item 1) incl. : Edu.cess 8,595	
6. Tax on salary received in arrears (diff. 4-5) -	7,725
7. Tax computed in accordance with table "a" (as per Col.7 of table A)	6,318
8. Relief under section 89(1) (diff. 6 & 7)	**1,407**

Signature of Employee ****

Date : 31/03/2014

Place: NAGPUR

Name : ASHOK SHARMA

14 Responsibilities of DDO towards TDS on Salary

As per section 192 of Income Tax Act 1961, DDO has been authorised for deducting tax at source while disbursing salaries to employee. Some important provisions are as under:

(1) Calculation of monthly TDS (Income tax):

Calculate annual income tax payable from estimated salary and other income (reported if any by employee), considering the investment planning and change in DA rates. It is the responsibility of DDO to deduct the TDS at average rate of income tax as applicable, before disbursing the salary. However, U/s 192 (2A) the DDO can allow relief u/s 89(i) to employee, if claimed against the arrears. If DDO fails to deduct the whole or any part of the tax at source then u/s 201(1A) DDO shall be liable to pay simple interest @ 1% every month or part thereof on the amount of such tax from the date on which such tax was deductible to the date on which such tax was deducted at source.

(2) Time limit for depositing income tax in Govt. account:

As per rule 30(1(B)) of income tax, it is necessary to deposit the deducted income tax in Govt. account, maximum within one week from date of deduction. If DDO is depositing the TDS in Govt. account within the time limit, then u/s 201(1) (1A); DDO shall be liable to pay simple interest @ 1.5% monthly or part thereof of such amount of tax. While calculating the interest, the time period will be the period between the due date of payment of such tax and actual date of payment. If employee takes the responsibility of paying tax, by giving in writing, then also indirectly DDO will be responsible for the payment of tax.

(3) Issue of certificate of TDS in Form 16: As per section 203, it is compulsory for DDO to issue TDS certificate (*Form 16)* within two month from the end of financial year, i.e., for financial year 2013-14 the last date of issue shall be May 31, 2013. The DDO failing to issue TDS certificate in time limit, shall be liable for a penalty of Rs.100 for each day of default, subject to the amount of TDS, under section 272A(2)(g).*The Part A of Form 16 has to be downloaded from Govt. website https://www.tdscpc.gov.in and part B may be prepared. Part A carries a unique serial no on it assigned by income tax department.*

(4) If an assessee is employed by more than one employer during the year, each of the employers shall issue *Part A* of the certificate in *Form 16* pertaining to the period for which such assessee was employed with each of the employers and *Part B* may be issued by each of the employers or the last employer at the option of the assessee.

(5) Quarterly TDS return: The DDO has to submit the details of TDS, quarterly to IT department in C.D. up to 15th of the following month. The Quarterly Statements are to be filed on computer media only in accordance with rule 31A of the Income-tax Rules, 1962. In case of failure in filing of the Quarterly Statement, the person deducting the tax shall be liable for a penalty of Rs.100 for each day of default, under section 272A (2) (k).Further penalty of Rs.10,000 to 1 Lakh may be imposed if TDS/TCS return is not filed or incorrect information is given in the TDS return. However, no penalty shall be leviable where the TDS/TCS, statement is furnished within one year from the due date, after payment of TDS/TCS, along with fee and interest if any.

(6) If any DDO is not applying for TAN or not mentioning TAN in challan, then penalty can be charged up to Rs. 10,000 as per section 272BB.

(7) Perquisites: As per sub-section 2C of section 192,DDO has to provide information relating to the nature and value of perquisite in form 12BA for employees drawing salary more than Rs.2,00,000, in other cases , the information would have to be provided in *Form 16* to the employees, indicating the value of perquisite.

15 Income from the head of House Property

Under Section 22 of the Income Tax is taxed under the head *House Property*, is the inherent capacity of the property to earn income called the Annual Value of the property. The above is taxed in the hands of the owner of the property.

15.1 House property includes:

i. Any building or land appurtenant may be informed of courtyard or compound forming part of the building but not an open land

ii. Flats, shops, office space, Factory shades, Agricultural land & Farm houses (but there should be superstructure on the Land).

15.2 Meaning of ownership:

i. The name on which the property stands/Registered shall be the legal owner, but it is not necessary that he should be the owner of the Land on which that House Property is built, like in case of a flat.

ii. In case of disputed property, the occupant person will be treated as the owner.

iii. Member of Group Housing Scheme of local Govt. or Cooperative Society

15.3 Annual Value: U/s 23(1) annual value of any property will be:

As per Section 23(1) the Annual Value of property will be the sum whichever is received or is receivable from the following:

✓ The Annual value of any property is the sum of what the property might reasonably be expected to fetch if the property is let from year to year [Sec. 23(1) (a)]

✓ Where the property or any part thereof is let out, the annual value of such property or part shall be the reasonable rent for that property or part or the actual rent received or receivable, whichever is higher [Sec. 23(1) (b)].

✓ Where the property (or part thereof) has been let out and was vacant during any part of the year & if due to such vacancy the rent received or receivable is less than the reasonable for the property (or part), then its annual value shall be the amount so received or receivable.

15.4 Net annual value:

In case of let out property, the local taxes such as Municipal tax, water & sewage tax, Fire tax & Education Cess levied by a local authority are deductible while computing the net annual value of the property on payment basis.

15.5 Important facts relating house property:

i. Income from Land attached to building used for Agricultural purpose will not be taxable.

ii. If a person is living at some other place due to his profession or business and if no income has been arisen from the house Property, then the annual value of the house property will be treated as Nil.

iii. If the Assessee has only one house property which is self occupied and not earning any amount as rent, then the annual value of such property will be Nil and no income tax will be payable whereas if the house property has acquired or constructed by borrowed capital then the deduction for accrued interest will be allowed as per Section 24(1).

iv. If Assessee has more than one house property then as per Section 23(4) according to his wish annual value of any one house property will be calculated with an assumption that it was rented.

v. In case of joint ownership if a house property is in the ownership of two or more persons with fixed joint ownership, then income after allowable deduction will be taxed to the each of other owner according to their proportionate ownership.

15.6 Deduction allowed u/s 24:

i. Standard Deduction 30% of net annual value

ii. Deduction in respect of accrued interest on borrowed capital for acquisition construction or repairing of house property -

Situation 1: When the house property is self-occupied

a. If loan for acquisition/construction of house property has been taken before April 1, 1999, then the maximum limit of allowable deduction for due interest is Rs. 30,000 otherwise it will be Rs 2.0 Lakh from April 1, 2014.

b. If loan has been taken at any time for renovation, maintenance & repairs of house property, then the maximum limit of allowable deduction for due interest is Rs. 30,000.

Situation 2: When the house property is not self occupied

The whole amount of due interest will be allowable as deduction without any upper limit when the capital is borrowed for any purpose (cons./maint.) of house building.

15.7 The construction/acquisition of house property should be completed within 3 years form the financial year of taking borrowed capital (house loan).

15.8 If capital is borrowed for repayment of housing loan of high interest rate then also the deduction for due interest is allowable.

15.9 The deduction of due interest only is allowable after completion of construction/acquisition of house property. constraction requires times, so for that period pre-EMI is payable towards interest on borrowed capital.The deduction for this pre-EMI will be allowed if the acquisition/construction of house property has been completed in the same financial year, otherwise deduction against pre-EMI will be allowed in the next five years with equal five instalments.

15.10 When loan is taken from Bank or financial institution then EMI is first adjusted with due interest and then balance amount is adjusted with Principal. But when a Govt. employee takes loan from employer then the complete EMI is adjusted with Principal till full adjustment of Principal and then interest. Therefore, Govt. employee initially does not make any payment towards interest, but he can claim deduction towards interest on due basis as per Section 24(1) irrespective of the fact that he has not paid any amount towards interest.

Format for calculation of Income from the head House Property		
1.	Annual value	Rs......................
2.	Less: Tax paid during the financial year to Local Administration	Rs......................
3.	Net Annual Value - (1) - (2)	Rs......................
4.	Less: Allowed Deduction under Section 24	Rs......................
	a. Standard deduction (30% of Net Annual Value)	Rs......................
	b. Interest due on borrowed capital	Rs......................
	c. Total deductible Amount	Rs......................
5.	Income from the head of House Property - (3) 1 (4)	Rs......................

16 Income from the head of Business or Profession

16.1 Meaning of Business or Profession:

Business: u/s 2(13) Business includes any type of trade, commerce & manufacture or any adventure or concern in the nature of trade, commerce or manufacture. It is not necessary that there should be a series of transactions in a business and that it should be carried permanently. Neither repetition nor continuity of similar transactions is necessary. Profit of an isolated transaction is also taxable under this head, provided that it is a venture in the nature of business or trade. In this connection, it is important that the intention of purchase or manufacture should be to sell at a profit.

Profession: Profession means the activities for earning livelihood that require intellectual skill or manual skills, e.g,. the work of a lawyer, doctor, and auditor, engineer and so on. Profession includes vocation. Vocation means activities which are performed in order to earn livelihood, e.g., brokerage, insurance agency, music etc.

16.2 Taxable income under the head of Business or Profession:

Profits & gains from Business & profession include following:

i. The profits & gains of any business or profession which was carried on by the assessee at any time during the previous year.

ii. Any interest, salary, bonus, commission or remuneration due to or received by a partner of a firm provided that it has been allowed as deduction in computing the taxable profits of such firm.

iii. Income from speculative transactions. (But losses from betting business have been kept separate from normal income)

iv. If the business of assessee is to invest in securities then profit or loss incurred due to sale / purchase of shares will be calculated under this head (but debentures will not come under this head).

v. Apart from the above, income of trade unions, key man insurance policy amount, specific receipts related to import-export, agency commission etc.

16.3 Important facts relating to business or profession:

i. Tax is chargeable from the person who carries out the business or profession. The essential requirement is that he should be entitled to carry out the business. It is immaterial if the Assessee (owner of the business) carries on the business through a manager/servant/agent etc. (Sec.28)

ii. Whether the business is legal or illegal, the profits will be calculated under this head only (profits due to betting, smuggling etc.)

iii. Losses are also considered in the head of business or profession & are adjusted against income from other sources. If it cannot be adjusted, then it can be carried forward to adjust income of coming years.

iv. Estimated or imaginary profits are not taxable.

16.4 Expressly Disallowed Deduction :-

Out of the various expenses occurring on business or profession some expenses are not allowed for deduction from income from the head of business or profession. A few of them are :

Payment of direct taxes	Payment of Income tax/wealth tax & related penalty or interest.
Capital Expenditures	For fixed assets such as land, building, car etc.
Penalty	Any type of penalty relating to direct-indirect tax, legal-illegal business.
Capital losses	Losses incurred due to sale of capital assets.
Individual expenses	Assessee's individual expenses such as domestic expenses, life insurance premium etc.
Payment to relatives	If the assessee is paying any unreasonable amount to his relative or sister in concern with the business or profession, then such amount is not allowed for deduction.
Interest on personal capital	If the owner of the business debits any interest from his account (on personal capital or loan) then such interest is not allowed for deduction.
Cash payments	U/s 40A (3) if payment of any expenditure *(incurred after April1st. 07)* of more than Rs. 20,000 is made in cash (but not through a/c payee cheque or DD etc.) then such expenditure shall be *fully (i.e.100%)* disallowed excluding (Particular situations mentioned in rule 6DD).

16.5 Expressly Allowed Deductions :

Following expenses relating to business or profession are allowed for deduction:

Section	Expressly allowed deductions
Sec. 30	*Building related expenses:* Rent, repairing, maintenance, local taxes, insurance etc. of building used for business or profession.
Sec. 31	*Machines* used for business or profession, plant, repairing of furniture, insurance of properties etc.
Sec. 32	*Depreciation:* Deduction of depreciation on listed value of properties, machines, plant, furniture, vehicles, patent, copyright, trademark etc relating to business or profession under following conditions. • Assessee should be the owner of the property • Property should not be used for personal purpose • If using period of property is less than 180 days then 50% & if more than 180 days then 100% depreciation is allowed
Sec. 35(AC)	Expenses incurred on schemes of *social & economic welfare*
Sec. 35(CCA)	Expenses incurred on approved *village development programmes*
Sec. 35(CCB)	Amount given to any approved agency engaged in conservation of *natural resources & forestry.*
Sec. 35(D)	*Initial expenses:* Deduction will be allowed for the expenses done prior to the start of business in the form of 5 equal yearly instalments till the next 5 years. But the initial investment should not be more than 5 % of the project cost.

Sec. 36	*Other deductions: -* • Insurance premium for covering risk of damage to goods • Medical insurance of employees, bonus & commission paid to employees • Contribution of employer in approved gratuity fund • Contribution of employer in approved provident or superannuation fund • Bad debt relating to business or profession (but if sanctioned old debt is received then it will be treated as income) • Expenses incurred to the employees to promote family planning as revenue expenses are fully deductible where as Capital expenses incurred for same will be deductible at the rate 1/5 part per year for 5 years • 12.5% of expenses done on approved scientific research institutions, university, colleg etc. are allowed for deduction. (No matter whether research is related to Assessee's business or not) • Donations given which are related to business or profession
Sec. 37	Following expenditures in respect of business or profession are allowed for deduction. • Expenses done in relation to sale purchase or manufacturing, royalty, commission for bringing business • Daily general expenses & also the legal expenses related to business • Legal expenses for trademark registration & trademark protection • Expenses on guesthouses, rest houses, entertainment of customers & business guests • Expenses & deposit for telephone connection • Commission & brokerage to agents, as well as claims etc.
Sec. 37	Expenses on inauguration & Diwali festival such as white washing, painting, lightings, prizes to employees • Apart from above expenses, other expenses related to business or profession • Sales tax, penalty for late payments of sales tax, local commercial taxes, expenses for appeal, excise charges etc. • For compensation given to employee for removing from job or in case of accident, pension gratuity, expenses on labour welfare & mandatory donations for business etc • Apart from expenses some losses are also allowed for deduction • Loss due to cash fraud done by employee, loss of goods or cash due to theft etc • Loss due to battle, natural calamities, loss due to non-payment of advance deposit • Expenses should not be of following type for getting approval of deduction under section 37 Expenses coming under sections 30 to 36, expenses related to the assessee's business, personal expenses of assessee, expenses due for last year, expenses prohibited by law
Sec. 37(2B)	• Expenses incurred on advertisements are allowed, but expenses on souvenir & brochure of political party are not allowed. Wages given to tax consultant, auditor & lawyer are allowed for deduction.
Sec. 43B	Some expenses are allowed on the basis of actual payment (in the financial year) • Any type of Govt. tax & interest on institutional loan • Contribution in employee related fund & bonus or commission of employee

16.6 Maintenance of accounts is compulsory, to whom?

Keeping account is necessary for calculation of income from business or profession. The basis of keeping account for specific professionals & businessmen are different u/s 44AA as per the following.

(A) For (specific) Professionals

Every Person carrying out profession of law, medicine, engineering, architecture, accountancy, technical consultancy, interior decoration, film artist, authorised representative, and company secretary or information technology are covered under this specific category.

1 If the gross receipt from such profession exceeds Rs.1, 50,000 in any of the three years immediately proceeding the previous year, or likely to exceed Rs.1, 50,000 during the previous year (current FY), then the person is required to maintain the following books of accounts. Otherwise he has to maintain the account in such a way that the assessment officer can calculate the taxable income correctly.

- Cashbook & Ledger
- Extra book of accounts for medical practitioners
- Bills or receipts against expenses (for more than Rs. 500)
- Carbon copies of bills & receipts (for more than Rs. 25)
- Journals if accounts are kept by mercantile system

Note: Books of Account & documents is to be kept safely at least for six years after ending of assessment year.

(B) For Businessmen and other Professionals

1. Persons who are carrying out the business or profession other than those mentioned at (A) above and whose income exceeds or is likely to exceed Rs.1.2 Lakh or the total sales, turnover or gross receipt exceeds or likely to exceed Rs. 15 Lakh in any one of the 3 immediately preceding years or during the previous year, as the case may be, are compulsorily required to maintain such account books as may enable the assessing officer to compute their total income as per law. No books of accounts have been prescribed by the income tax department in this behalf. However, it is better to keep the following books & documents:

   - Cash book, Ledger
   - Bills or receipts against expenses
   - Journals, for keeping account by mercantile system
   - Carbon copies of bills & receipts

   Note: Books of A/c & documents are to be kept safely for six years after the end of the assessment year. If the assessee is not maintaining proper accounts, he can be penalised by Rs. 25,000 U/s 271(a).]

2. For the businessmen who does not come under [B (1)] category need not keep accounts as mentioned above. But they have to maintain cashbook & ledger. If retail businessmen, contractors & transporters are claiming income less than the prescribed income then they also have to maintain cashbook & ledger.

16.7 Methods of Accounting (Sec.145)

While calculating income from business or profession, the assessee has options to go either by mercantile system or cash system. But after selecting any particular system he has to continue the same in the future. In mercantile system, loss & profit is calculated on the basis of receivables & payables. Whereas in cash system assessee maintains his account books, on the basis of actual receipts & payments.

Example: A commission agent has received Rs. 2,10,000 as commission in the F,Y, 2011-12 which includes Rs. 14,000 towards the commission due for the work to be completed in the F,Y, 2013-14 and Rs. 26,000 was due for payment towards commission for the F,Y, 2010-11.The Assessee has paid Rs. 8,000 towards rent for the shop for 8 months in FY, 2011-12 whereas rent for 4 months is balance for payment, calculate his taxability in FY 2011-12.

Solution: Assessee has the option to calculate his income and income tax by any of the following

Mercantile System			
1.	Commission = actual receipt in the year – advance + earned commission		
	2,10,000	- 14,000 + 26,000	= 2,22,000
2.	Rent = actual payment in the year + balance payment		
	8,000	+ 4,000	= 12,000
3.	Total Income = Income from commission - expenses (in the form of rent)		
	2,22,000	- 12,000	= 2,10,000
4.	Income Tax Payable on total income	= 1,000	

Cash System			
1.	Commission (actual receipts in the year)		= 2,10,000
2.	Rent = actual payment in the year		= 8,000
3.	Total Income = Income from commi ssion - expenses (in the form of rent)		
	2,10,000	- 8,000	= 2,02,000
4.	Income Tax Payable on total income	= 200	

16.8 When does auditing of accounts become mandatory u/s 44 AB ?

Audit of accounts by a C,A, is compulsory if in a financial year, the turn over, gross receipt from the head of business income exceeds Rs. 1 Cr., or the gross receipt from a profession exceeds Rs. 25 Lakh; or if a businessman was annual turnover up to Rs. 1 crore or a truck owners having up to 10 trucks and has declaring income less than as prescribed on presumptive basis, as per the estimated income scheme under Sec. 44AD, 44AE.

16.9 Rates of Depreciation:
The Depreciation allowance is allowed to an assessee engaged in the business of manufacture or production of any article or thing at following rates as:

Description	From Year 2005 -06
Building (residential)	5%
Building (Non residential)	10%
Furniture	10%
Machinery & Plant	15%
Motor vehicle	15%
Computer	60%

17 Estimated Income Scheme

For Businessmen u/s 44 (AD):

With effect from April 1, 10 i.e. from FY 2010-11, the scope of presumptive taxation is extended to all businesses by substituting a new section 44AD. The salient features of the extension are:

a. The scheme shall be applicable to individuals, HUFs and partnership firms excluding
   - Limited liability partnership firms
   - An assessee who is availing deductions under sections 10A, 10AA, 10B, 10BA or deduction under any provisions of Chapter VIA under the heading *C-Deductions in respect of certain incomes (80 H * to 80 I* etc)* in the relevant assessment year.

b. The scheme is applicable for any business (excluding transporters already covered under Sec. 44AE) whose annual gross turnover / receipts does not exceed Rs.1 crore.The scheme is mandatory for eligible businessman.

c. The presumptive rate of income is prescribed at 8% of gross turnover /gross receipts However, assessee may declare higher income in his return and then tax shall be calculated on such income.

For Transporters u/s 44(AE):

a. This scheme is for those transporters who have maximum 10 goods carriages and are using it for self-business for or saf have given it on lease or on rent during the previous year. extaion heavy goods, vehicle assessment of income was done @ Rs. 5,000 per month per vehicle and for light goods vehicle Rs. 4,500 per month per vehicle. From FY 2014-15 for all types of vehicle (heavy/light) the assessment of income shall be done @ Rs. 7500 p.m.(or part of a month) and then tax shall be calculated on such income.

Estimated income scheme is applicable subject to the following conditions :

- An assessee opting for the above scheme shall be exempted from payment of advance tax
- Deductions towards business expenses u/s 30 to 38 shall not be allowed (depreciation, rent, advertisement, interest, repairs etc.)
- Assessee need not maintain any books of Account under section 44AA of the *IT Act;* however the assessee must maintain some basic books such as cash memos /bills, cashbooks etc. which will be necessary to ascertain the amount of turn over / gross receipts.
- In case of partnership firm, deductions are allowed on salary of partners and interest on their capital . u/s 40(b).
- Deductions under provisions of chapter VIA under the heading B Deductions in respect of certain investment / expenditure (Sec 80C to 80GGC) and 80U are allowable.
- If the assessee is have any other source of income apart from this business, then it shall be computed separately as per normal provisions, and then aggregated with estimated income and taxed accordingly.
- If the assesses is declaring income our less than the above-prescribed rates, then they have to maintain account u/s 44(AA) and audit of the account shall be necessary.
- If needed, assessee can declare higher income than as calculated on presumptive basis as above.

Big Relief for Small Businessman

Under new provisions a business assessee (Proprietorship/ Partnership firms/ HUF) whose total turnover (from one or more business) is up to Rs. 1 crore will now have an option to declare income at 8% of their annual turnover and better tax planning he can reduce the tax liability to ZERO.:

Example: *Mohanlal is a retailer. In the financial year 2014-15 his gross receipts against sales is Rs. 60 Lakh. He has spent Rs. 24,000 as rent of the shop & Rs. 36,000 on telephone. For tax saving he has invested Rs. 90,000 in PPF & paid Rs. 20,000 towards life insurance premium .Calculate the income tax payable for FY 2014-15?*

Solution: - U/s 44(AD) of estimated income scheme:

(i)	Total Income = 8% of total receipts = 60,00,000 x 8%		= Rs.	4,80,000
(ii)	less : Deduction u/s 80C :		= Rs. (-)	1,10,000
	(PPF 900,000 + LIC 20,000 = 1,10,000)			-------------------
	Total Taxable Income		= Rs.	3,70,000
(iii)	Tax on Total Income			
	a) Up to 2,50,000	Zero		Zero
	b) Next 20,000	10%	=	2,000
	c) Less: Tax rebate u/s 87A		=	2000
	Total Income Tax	**Payable**	=	**NIL**

Formula of Zero Income Tax

When turnover is up to 30 Lakh	
1. Gross Total income = 8% of Rs.30 Lakh	= Rs. 2,40,000
2. Basic Exemption Limit	= Rs. 2,50,000
3. Income tax payable	= Nil
When turnover is 77.5 Lakh	
1. Gross Total income = 8% of Rs.77.5 Lakh	= Rs. 6,20,000
2. Less: Deduction towards Investment u/s 80 C	= Rs.1,50,000
3. Less : Interest due on house loan	= Rs.2,00,000
4. Taxable income	= Rs.2,70,000
5. Basic Exemption Limit	= Rs 2,50,000
6. Income tax payable	= Nil (considering tax rebate of Rs.2000 u/s 87A)
When turnover is 100 Lakh/ 1 crore	
1. Gross Total income = 8% of Rs.100 Lakh	= Rs. 8,00,000
2. Less: Deduction towards Investment u/s 80 C	= Rs.1,50,000
2. Less: Interest due on house loan (if any)	= Rs. 2,00,000
3. Less: Interest paid to partner for capital employed (Deduction towards payment of salary to partner, if any, can also be claimed)	= Rs. 1,80,000
5. Taxable income	= Rs. 2,70,000
6. Basic Exemption Limit	= Rs. 2,50,000
7. Income tax payable	= Nil (considering tax rebate of Rs.2000 u/s 87A)

18 Income from the head of Capital Gain

Any Profits or Gains booked from the Transfer of Capital Assets during the previous year are chargeable to income tax under the head Capital Gains and shall be deemed to the income of that previous year in which the transfer takes place.

As defined in sec.2 (14) of IT act capital asset means property of any kind held by the assessee except non-capital assets like -

i. Stock-in-trade, consumable stores or raw materials held for the purpose of business

ii. Personal affect viz. wearing apparel, furniture, motor vehicles, etc. held for personal use of the assessee or his family. However, jewellery is a capital asset.

iii. Agricultural land in India but excluding agricultural land situated within the jurisdiction of a municipality or within 8 km from the local limits of such municipality

iv. Special Bearer Bonds, Gold Bonds, National Defence Bonds, Gold Deposit Bonds As per *Finance* Act 2007, now Capital asset would also include drawings, paintings, etc.

The scope of capital asset is being widened by including certain items held as personal effects such as archaeological collections, drawings, paintings, sculptures or any work of art. Presently no capital gain tax is payable in respect of transfer of personal effects as it does not fall in the definition of the capital asset. Transfer of the above items shall now attract capital gain tax save as jewellery less despite being a personal effect.

18.1 Short term capital gain: If the capital assets remains with the assessee for 36 months or less (for listed shares and units of equity oriented mutual fund the holding period is 12 months) then income due to transfer of this assets is called as *short-term capital gain.* This is added in to the gross total income and tax is applicable on normal rates as per rule.

(a) Calculation of Short term capital gain:

1. Determine full value of received due to transfer of assets — A
2. Deduct exemption Applicable u/s 48:
   (a) Expense relating to advertisement, commission, registry etc. — B
   (b) Cost of acquisition — C
   (c) Cost of improvement — D
3. Gross short term capital gain (X = A – B – C – D) — X
4. Deduct exemption u/s 54/54B/54D/54G — E
5. Taxable short-term capitals gain (Y = X - E) — Y

(b) Provisions of Taxation of Short-term capital gain: The short-term capital gain shall be treated as normal income for the purpose of applicability of rate of income tax, except following :

After Oct 1, 2004, if any short term capital gain arises due to transfer(sale or repurchase) of listed equity shares or units of *Equity Oriented Mutual fund* (EOMF) within 12 months of purchase date, then on such gain rate of income tax will be applicable @ 15% u/s 111A, subject to certain conditions as :

- The transaction is chargeable to Security Transaction Tax (STT).
- Deduction u/s 80C to 80 U is not available in case of such short term capital gain.
- Rebate of STT is allowed u/s 88 E & tax on such short term capital gain can be set off.
- Equity oriented mutual fund means, a fund, in which 65 % (earlier 50%) of investment is done in shares of domestic companies, assessed on the basis of monthly or yearly average.

Note : Above provisions are applicable to the transactions meant for investment purpose only. But if sale/purchase of equity shares (or units of EOMF) is a business activity then above relief on taxation shall not be available & the income will be treated as business income & taxed accordingly.

18.2 Long Term Capital Gain :

1. When capital assets remain with assessee for more than 36 months (12 months for listed share & units of equity oriented mutual fund) then the profit due to transfer of such assets is considered as long-term capital gain.
2. Capital gain due to transfer of agricultural land in rural areas is tax-free.
3. From Oct 1, 2004 onwards long term capital gain due to sale of listed shares/equity oriented mutual fund units is totally tax free (shares / units if remains with assessee for more than 12 months). Now as per *Finance Act 2014*, Long term capital gain arisen up to Jul 10, 2014, due to sale/repurchase of units of other mutual fund [u/s 10(23D)] will be taxed as per the following, (I) and (ii) whichever is less:

   (i) @ 10% if benefit of indexing is not taken

   (ii) @ 20% if benefit of indexing is taken

   Thereafter i.e. after 10th July 2014 onwards as per (ii) only
4. Long term capital gains, will be taxed @ 20% after taking benefit of indexing
5. Long term capital gain cannot be adjusted against exemption U/s 80C. But if needed it can be adjusted against basic exemption limit of income tax.
6. Proper value of building/land: As per section 50C actual value or the value decided by stamp valuation officer, whichever is more, will be taken as proper value of land/building under transfer while calculating capital gain.
7. Cost Inflation Index :

Financial Year	Index	Financial Year	Index	Financial Year	Index	Financial Year	Index
						2008-09	582
1981-82	100	1990-91	182	1999-00	389	2009-10	632
1982-83	109	1991-92	199	2000-01	406	2010-11	711
1983-84	116	1992-93	223	2001-02	426	2011-12	785
1984-85	125	1993-94	244	2002-03	447	2012-13	852
1985-86	133	1994-95	259	2003-04	463	2013-14	939
1986-87	140	1995-96	281	2004-05	480	**2014-15**	**1024**
1987-88	150	1996-97	305	2005-06	497		
1988-89	161	1997-98	331	2006-07	519		
1989-90	172	1998-99	351	2007-08	551		

Calculation of Long Term Capital Gain:

1. Full value of consideration receivable due to transfer of assets — **A**
2. Deduct following exemptions allowable u/s 48:
   (a) Expense related to advertisement, commission, registry etc. — **B**

   (b) Cost of indexing acquisition — **C**

   $$= \frac{\text{Cost of acquisition X cost inflation index of transfer year}}{\text{Cost inflation index of acquisition year}}$$

   (c) Cost of indexing improvement — **D**

   $$= \frac{\text{Cost of improvement X cost inflation index of transfer year}}{\text{Cost inflation index of acquisition year}}$$
3. Gross long term capital gain (X=A–B–C–D) — **X**
4. Deduct exemption U/s 54/54B/54D/54EC/54ED/54F/54G — **E**
5. Taxable long-term capital gain (Y=X-E) — **Y**

18.3 Exemption of Capital Gains :

U/S 54 *Long-term capital gain due to transfer of residential house property:*

If an assessee (individual/HUF) has purchased a house property 1 year before the transfer date or within 2 years of transfer, or constructs one residential house in India within 3 years of transfer then, Tax-free amount = amount of reinvestment as above or capital gain whichever is less.

U/S 54B *Short / long term capital gain due to transfer of agricultural land:*

If an assessee (Individual) has purchased agricultural land within 2 years of transfer then Tax-free amount = amount of reinvestment as above or capital gain whichever is less.

U/S 54D *Short term/ Long-term capital gain due to compulsory acquisition of industrial building or land:*

If an assessee purchases land/building for industrial purpose within 3 years of transfer then Tax-free amount = amount of reinvestment as above or capital gain whichever is less

U/S54EC *Long term capital gain due to transfer of any capital assets after April 1, 2000*:

If investment is made by an assessee in the long-term specified asset (bonds) such as rural electrification corporation, NHAI capital gain bond with three year locking period, from capital gains arising from transfer of one or more original assets during the financial year in which the original asset or assets are transferred and in the subsequent financial year does not exceed Rs. 50 Lakh.

U/S 54F *Long-term capital gains due to transfer of any property other than residential housing property:*

If any house property is purchased 1 year before the transfer or within 2 years of transfer or has constructed a house within 3 years and selling cost of transferred property is equal to or less than the amount spent for purchase/construction of new house then total capital gain will be exempted, but if it is more the amount spent then-

$$\text{Tax-free amount} = \frac{\text{Capital gain X Cost of new house}}{\text{Amount received due to Transfer of such property}}$$

U/S 54G *Short/long - term capital gains due to transfer of properties while removing industrial units from urban area:*

If construction or purchase of new industrial units is done one year before the transfer date or within three years of transfer date in rural area then

Tax-free amount = Amount of reinvestment as above or capital gain whichever is less.

Exemption u/s 54, 54B, 54D, 54F, 54G are applicable along with following conditions:

i. If investment in new property is not possible in the same financial year then as per section 139(1) before the due date of return filling, it is compulsory to deposit the capital gain by opening an account *(CGI Account scheme 1988)* in any nationalised bank. If it cannot be invested in new property before the due date then the deposited amount will be taxed accordingly. Interest will be receivable on the deposited amount.

ii. It is mandatory that the new property should be under the ownership of assessee for at least three years from the date of purchase/ construction of new property this means that the sale of the new property can be possible only after 3 years.

19 Income From head of Other Sources

19.1 Income from other sources :

If income is not taxable under any head as house property, salary, business or profession, capital gain, then normally it is considered under income from other sources as per section 56. This nearly includes mainly the following:

a. After sept.1, 2004 gifts of more than Rs. 50,000 (w.e.f. 5 to 12, 2000) from non-relatives will be taxable for the receiver

b. Investment made in bank / post office / other institution in the form of recurring / fixed deposit, NSC, Kisanvikaspatra, NSS or Infrastructure Bond. Interest received or due on these schemes and interest received on refund of income tax.

c. Income in the form of rent received on machinery, plant, commercial/industrial building.

d. Under family pension scheme, pension amount received by the dependent of expired employee (excluding employee of armed forces)

e. Income received from horse racing, lottery, crossword, TV game etc.

f. Rent received from empty land, salary received by MP & MLAS royalty income, income of cricket players, wages of examiner, & invigilator, amount received as rent on furniture etc.

g. Commission earned by agents of post offices, LIC, UTI, mutual fund etc.

19.2 Deduction allowed on above mentioned income u/s 57

a Amount spent for receiving interest or dividend or any other income and interest due on borrowed capital for investment

b Amount spent for repairs & depreciation insurance of machinery, plant, industrial/ commercial building

c Under family pension scheme 1/3 part of received yearly pension or Rs.15, 000 whichever is less

19.3 Dividend:

Dividend received from noted mutual fund or UTI u/s 10(35) and dividend received from Indian domestic companies u/s10 (34) will be totally tax free for investors.

19.4 Interest:

As per section 56(2) if account system is opted on receipt basis then the income tax on interest will be due only after actual receipts *they become due.*

Provisions of Income Tax on Gifts

Any person (HUF, Individual) receivers more than Rs. 50,000 (after Jul 4, 2006) in a year (This limit was Rs. 25,000 (for a period between Sep 1, 2004 to Jul 4, 2006), from non relatives, without any consideration then the amount of gift will be added to taxable income.

Relatives means :

- (i) Life partner
- (i) Brother/sister of self
- (ii) Brother/sister of life partner
- (iii) Brother/sister of parents of self and life partner
- (iv) Linear Ascendant or Descendant of self & life partner
- (v) Life partners of above mentioned (i), (ii), & (iii)

Excluding following gifts :

- (1) Gift received in marriage
  - (i) Gift received through will or ancestral reasons
  - (ii) Gift received on death of assessee

Provisions regarding Taxation of certain transactions without consideration or with an inadequate consideration as income from other sources (section 56 of the Income-tax Act) is amended to provide that the value of any property received this way will also be included in the computation of total income of the recipient. such properties will include immovable property like land or building or both, shares and securities, jewellery, archaeological collections, drawings, paintings, sculptures or any work of art.

1. In a case where an *immovable* property is:

   (i) Received without consideration and the stamp duty value of such property exceeds Rs. 50,000, the whole of the stamp duty value of such property shall be taxed as the income of the recipient.

   (ii) Received for a consideration which is less than the stamp duty value of the property and the difference between the two exceeds Rs. 50,000 (inadequate consideration), the difference between the stamp duty value of such property and such consideration shall be taxed as the income of the recipient. *This provision is withdrawn from date of effect.*

2. In a case where *movable* property is:

   (i) Received without consideration and the aggregate fair market value of such property exceeds Rs. 50,000, the whole of the aggregate fair market value (as on the date of receipt) of such property shall be taxed as the income of the recipient.

   (ii) Received for a consideration which is less than the aggregate fair market value (as on the date of receipt) of the property and the difference between the two exceeds Rs. 50,000 the difference between the fair market value of such property and such consideration shall be taxed as the income of the recipient.

The above amendment is effective from Oct 1, 2009 and will accordingly apply for transactions undertaken on or after such date.

20 Provisions of Income Tax for Post Office - LIC & UTI Agents

Ad hoc deduction for post office, LIC, UTI agents from income derived by commission is allowed as per CBDT circular no.648 dated Mar 30, 1993 as detailed below:

Situation 1: If gross commission received in financial year is not more than Rs. 60,000 &accounting of expenses has not been done then following deductions are allowed:

S.N	Particulars	Amount of std. deduction
(A)	Agents of Post office, mutual fund, UTI	Up to 50% of comm. received
(B)	LIC agent	
	(i) First year commission	
	(ii) Renewal commission	Up to 50% of comm. received
	(iii) If accounting of above is not kept separately	Up to 15% of comm. received
	(iv) Bonus commission	Up to 33.3% of com. received
		No deduction

Note – for LIC agent max. Deduction in respect of (i) (ii) (iii) is allowed up to Rs. 20,000

Situation 2: If all situations other than situation 1, tax assessment officer can allow deduction up to the limit of actual expenses.

Example: Mr. Sharma is an LIC agent, whose income in the year 2014-15 is as follows: -

A) Income from commission

(i) First year commission = Rs. 3,00,000

(ii) Renewal commission = Rs. 40,000

(iii) Bonus commission = Rs 5,000

B) Income from other sources (Interest of bank/NSC) = Rs. 65,000

C) LIC premium paid = Rs. 30,000

Calculate the Income Tax Payable?

Solution:

(i) Total Income 3,00,000 + 40,000 + 5,000 + 65,000 = 4,10,000

(ii) ad hoc deduction on commission – not granted as the total commission is > Rs.60,000. So deduction of actual expenses can be allowed if accounts are maintained properly as :

a) Transportation expenses = 20,000

b) office rent = 60,000

c) telephone and electricity charges = 30,000

Total Deduction =(-) 1,10,000

(iii) Gross Total Income = 3,00,000

(iv) Deduction in respect of LIC premium paid =(-) 30,000

(v) Total Taxable Income = 2,70,000

(vi) Total Income Tax

1st 2,50,000 =Nil

Next 20,000 @ 10% =2,0000 = 2000

(vii) Income tax rebate u/s 87 A = 2000

(b) (viii) Net tax payable = Nil

21 Carry Forward & Set Off of Losses

Generally, losses can occur from the heads of house property, business or profession, capital gain & other sources but not from the salary head. As far as possible, losses can be adjusted head- wise in the same financial year but if losses are more, then they can be adjusted against the profits of coming 8 assessment years as per the provision described in section 70 to 80.Brief of important provisions are as under:-

	Nature of Incomp	Set-off		Carry Forward & Set-Off		
	*Except Salaries	Same Head	Another Head	C/F	Years	Against whom
1	Salaries	Yes	Yes	No	NA	NA
2	House Property	Yes	Yes	Yes	8 years	Same head
3	Speculation, Business/ Specified Bus 35AD	No	No	Yes	4 years	Same head
	Unabs. Depreciation/ Cap. Exp. on SR/FP	Yes	Yes	Yes	No limit	Any income
	Non Speculative Business or Profession	Yes	Yes*	Yes	8 years	Same head
4	Long term Capital Gains	No	No	Yes	8 years	Same item
	Short term Capital Gains	Yes	No	Yes	8 years	Same head
5	Owning/Maintaining race horses	No	No	Yes	4 years	Same item
	Lotteries / Crossword Puzzles etc.	No	No	No	NA	NA
	Income From Other Sources (except if exempt)	Yes	Yes	No	NA	NA

Adjustment of loss from one source with profit from other the source under the same head:
Generally, losses from different sources of one head can be adjusted against income from other sources of same head (excluding loss from the head of capital gain) (As per sec.70)

Example: In the financial year 2014-15 a businessman happens to get a loss of Rs. 80,000 in garment business and profit of Rs.3,75,000 in grocery business and made investment of Rs. 25,000 in PPF and LIC premium . Calculate the net tax payable.

Solution:

- The loss in garment business can be adjusted against profit in grocery business.
- There fore, total income of assessee under the head of business or profession will be as under:
- Gross total income from Business head = Rs 3,75,000 – Rs.8,000 = Rs. 2,95,000
- Investment in PPF/ LIC premium etc u/s 80C = Rs. 25,000
- Total taxable income = Rs.2,70,000
- Basic exemption limit of income tax = Rs.2,50,000
- Tax payable (2,70,000 – 2,50,000 = 20000X10% = 2000) = Rs. 2,000
- Rebate in income tax u/s 87A = Rs. 2,000

22 Calculation of Total Income : Deductions under Chapter VI

Total income or taxable income can be obtained after deducting the eligible deduction u/c VI A from the gross total income

1 Following portion of gross income cannot be adjusted against deductions u/c VI A :

- Long-term capital gain
- Short term capital gain due to transfer of shares and units of mutual funds
- Income arises from winning lottery & horse racing
- Income of some heads related to section 115

2 Aggregate Sum of all deductions cannot be more than Gross Total Income

3 Investment for claiming deduction can be made from income of any financial year

Summary of important applicable deductions under chapter VI A

Section	Applicable deductions
80C	Investment in saving scheme (initially allowed u/s 88) such as GPF/PPF/LIC/GIS/PLI/NSC/ NABARD Bond/ ELSS, Tuition fees of children & repayment of house loan principal, without any interim limit, maximum up to a limit of Rs.1.5 Lakh including Bank FD for 5 years or more
80CCC	Premium amount deposited in pension scheme of Govt./private insurance co., maximum up to Rs. 1 Lakh yearly
80CCD	Contribution of assessee and employer in pension scheme of Central Govt., up to a limit of 10% of salary (Pay + GP + DA)
80CCE	Investment done u/s 80C,80CCC& 80CCD combined should not be more than Rs 1.5 Lakh but excluding contribution of employer towards NPS up to 10 % of salary
80CCG	The deduction to be allowed from the gross total income in respect of 50% of the amount invested in specified listed equities in Rajiv Gandhi Equity Scheme to new retail investor subject to the maximum Rs. 25,000/-from FY 12-13
80D	Premium paid for medical insurance scheme for self husband/ wife or children maximum up to Rs.15, 000 & Additional Rs. 15,000 will be allowed for Medical Insurance for mother, father from FY 08 - 09 (but if age of insured person is more than 65, then maximum up to Rs. 20, 000)
80DD	Deduction of Rs.50, 000 against expenses or insurance premium occurred on treatment of dependent disable deduction of Rs. 1 Lakh from Financial year 2010 allowed (in case of serious disability. No matter actual expenses may be less.)
80E	Payment of Interest of education loan taken for higher education of self or spouse or children - without any maximum limit of payment
80EE	The deduction of Rs. 1 Lakh miximum towards interest payable on house loan of max. 25 Lakh, for acquiring a residential property worth max. 40 Lakh
80G	Donation given in PM/CM relief fund, National Defence fund etc., and fully exempted.
80 TTA	Interest from savings accounts (in Bank / post office) is deductible subject to a maximum of Rs.10, 000 for individual and HUF
80U	If an assessee is completely blind or physically or mentally disabled permanently then deduction of Rs. 50, 000 is allowed

22.1 Details of deductions allowed u/s 80C :
From F, Y 2014-15, under section 80C, an individual & HUF can claim a deduction up to Rs. 1.5 Lakh for the investments/expenses made (without any interim limit) in the specified savings scheme/head of expenses . Here it is also not necessary that investment in these schemes should be done from the income earned in same year.

Important schemes/head for investment/ expenses	**Limit of investment applicable u/s 80C in financial year 2014-15**
Contribution of employee in GPF/CPF/PPF in the name of self, spouse and children	Max up to Rs.1, 50,000
Investment against purchase of NSC, due interest on earlier purchased NSC (excluding interest of 6th year)	Max up to Rs.1, 50,000
Premium paid during the year in a Life insurance scheme of Govt./Private insurance Co., postal insurance & ULIP scheme of UTI for self husband/ wife & children (married-unmarried & major/minor) maximum up to limit of 20% of (SA), for policies issued up to March 31, 2012 and 10% of SA for policies issued after April1, 2012(but incase of disable person, it is 15% of SA w.e.f. April 1, 2013) .	Max up to Rs.1, 50,000
Repayment of housing loan (taken for purchase /construction of house from approved institution) principal & necessary expenses as stamp duty, registration fees etc.	Max up to Rs.1, 50,000
Amount paid in the form of tuition fees of a child studying in college, university, school or other educational institute (excluding development fee or donation fee) deduction applicable up to 2 children only	Max up to Rs.1, 50,000
Investment for 5 years & above in Scheduled Bank / Post office as Fixed Deposit	Max up to Rs.1, 50,000
Equity linked tax saving scheme of mutual fund	Max up to Rs.1, 50,000
Sr. Citizen Deposit Scheme of Post office	Max up to Rs.1, 50,000

22.2 Section 80CCC: Deductions relating to investment done in pension fund:
Investment in Pension scheme of LIC or Annuity Pension scheme of approved private insurance company, up to max Rs.10,000 is allowed as deduction. *But this limit is increased up to Rs. 1 Lakh.* Amount received by an assessee or his nominee as pension, bonus or interest will be fully taxable in the receiving year. Investment made under this scheme, cannot be claimed u/s 80C again.

22.3 Section 80CCD: Contribution by Governement employee contribution (employed after April 1, 2004)/ private employee (employed any time –inserted by *Finance Act 2014*) / any other person inserted by *finance act 2009*) and employer (in assessee's pension account) in notified pension scheme will be allowed as deduction, to individual assessee. The deduction shall be allowed to the maximum e limit of 10% of salary (Pay+DP+DA) for employee and 10 % of gross total income, in case of any other person. Amount deposited by employer in assessee's notified pension account shall also be eligible for deduction up to 10% of salary, separately, further this deduction shall be additional to the overall limit of 1.5 Lakh u/s 80CCE

Example: Rs.15,000 is contributed by employee and employer, separately and if 10% of (Basic+DP+DA) is equal to 12,500, then total deduction of Rs.25,000 will be admissible. And out of which Rs.12,500 (employee contribution) is within limit of Rs.1.5 Lakh and remaining Rs.12,500 (employer contribution) how be within of Rs.1.5 Lakh u/s 80CCE.

22.4 Section 80CCE: Overall limit of deductions u/s 80 C, 80 CCC, 80 CCD:The investments made u/s 80C, 80CCC and 80CCD (excluding contribution of employer in new pension scheme up to 10% of Basic+DA) shall be eligible for deduction up to limit of Rs.1.5 Lakh, total.

22.5 Section 80CCF: aprovistion of deducting Rs.20000 was available for investment in infrastructure bond but this provision has been *discontinued* form the FY 11-12.

22.6 Section 80CCG: Rajiv Gandhi Equity Saving Scheme was introduced in the budget (2012-13) by the former Finance Minister. This is first of its kind scheme in India which allows, the new retail investor to invest up to Rs.50, 000 directly into equity shares and units of equity oriented mutual funds and avail tax benefit on 50% percent of investment made directly into equity shares i.e. deduction of max . Rs. 25,000 can be claimed under this section subject to the following conditions:

(1) The gross total income of the investor shall not exceed Rs. 12 Lakh for the relevant year

(2) The benefit under the scheme will be given to the first time investors into equity market

(3) Investments will be subject to lock-in period of three years

(4) If the assessee has claimed and has been allowed a deduction under this section for any assessment year in respect of any amount, he shall not be allowed any deduction under this section for any subsequent assessment year

(5) The deduction is allowable for maximum three consecutive year from the date when first investment was made under overall maximum limit of Rs.25,000 in total

22.5 Section 80D: Deduction in reference to investment made in health insurance scheme– Premium paid for medical insurance scheme or preventive health check up for self, husband / wife, or children max. Rs.15,000 & *Additional up to Rs. 15000 will be allowed for Medical Insurance for mother, father from FY 08-09*. But if the age of the insured person is more than 65 in the FY, then max. deduction of Rs.20, 000 shall be allowed. *However, the maximum deduction for payment on account of preventive health check-up of self, spouse, parents, dependent children, in aggregate, shall be Rs.5000.*

Condition: The payment of premium of health insurance should be from the same year's taxable income & through cheque/DD/online payment i.e. other than cash. However, the payment for preventive check up may be in any mode including cash.

22.6 Section 80DD: Deduction of expenses made with reference to medical treatment : With reference to medical treatment & maintenance of dependent handicapped, in case of general disability, Rs. 50, 000 & in case of serious disability, Rs.75,000 (Rs.1,00,000 from April1, 2010) will be eligible for deduction (No matter whether the actual expenses or investment is less). According to *Person with Disability Act 1995,* disability amounting to than 40% is called as general disability & disability more than 80% is called as *serious* disability.

Deductions are applicable only if the following conditions are fulfilled :

(1) Assessee has to spend amount for treatment / rehabilitation of dependent handicapped.

(2) Assessee has invested some amount in the schemes (for benefit of handicapped person) such as JeevanVishwas/ JeevanAadhar scheme of LIC or approved insurance companies or Unit Trust's scheme for disabled persons.

(3) Dependent handicapped means: Life partner, children, brother, sister or dependent parents of assessee.

(4) For any disability of following type the person will be assumed as handicapped:

(i) Permanent physical disability due to absence of more than (50%) one limb. Unable to hear sound of 71 decibel or more, or permanently dumb.

(ii) If a person is having I.Q. less than 50, then he will be assumed mentally disable. (On a test with a mean of 100 & standard deviation of 15 such as the Wechsler scale)

(iii) If the viewing capacity is as per following & cannot be cured then the blindness will be assumed as permanent physical disability.

All with corrections by using spectacle

SN	Better eye	Worse eye
A	6/60 – 4/60 field of vision 110 – 20	3/60 to Nil
B	3/60 to 1/60 or field of vision 100	F.C at foot to Nil
C	F.C at one foot to Nil or F.O.V. 100	F.C at one foot to Nil or F.O.V. 100
D	Total absence of sight	Total absence of sight

(5) Assessee has to produce permanent disability certificate from a competent Medical Practitioner working in a Govt. Hospital.

(6) Assessee has to give written declaration in which it is mentioned about medical expenses & investments made by him. But DDO cannot force assessee to produce bill or voucher against the expenses.

22.7 Section 80DDB: Deduction of amount spent for Medical treatment of serious disease for self or dependent person:

1) As per rule 11 of income tax, for treatment of specified illness during the year, amount actually spent or Rs.40, 000 (for senior citizen Rs. 60, 000), whichever is less, will be allowed as deduction. If any amount is received under medical insurance policy for treatment of illness, it will also be deducted.

(2) As per rule 11DD of income tax some of the specified diseases are as:
(a) Cancer (b) Thalassemia (c) Haemophilia
(d) Neurological disease (e) AIDS (f) Chronic Renal Failure

(3) Assessee has to produce a certificate in a prescribed format (10 – 1), by specialist Doctor of related disease working in a Govt. Hospital. It is also mandatory to give details of the amount spent.

(4) Dependent person means: Life partner, children, brother, sister, dependent parents of assessee (individual &HUF).

22.8 Section 80G: Deductions related to donations given to charitable or religious institution:

(a) *100% deduction on donations is given to following institutions:*
PM relief fund, National disease relief fund, Fund constituted for technical development, national defence fund, Governor or CM relief fund, Notified educational institute or university of national level, Notified fund by state government to help poor for better health, Notified district co-operative committee in rural & urban areas to promote primary education & literacy.

(b) *50% deduction on donations given to following institutions:*
PM draught relief fund, National Children fund, India Gandhi memorial trust, Rajeev Gandhi Foundation.

(c) *100% deduction with condition on donations given to following institution:*
Any Govt. or approved local administration, institute, association constituted for promoting family planning i.e. Helpage LRY in.

(d) *50% deduction with condition on donations given to following institutions:*
Any Govt. or approved local administration, institution or association constituted for providing health other than family planning, Approved charitable institution u/s 80G (5), Notified Temple, Mosque, Gurudwara, Church (places of historical, mythological & artistic importance) for their renovation approved by Central Govt.

Condition : Total amount of donations given to institution in (c) & (d) should not be more than 10% of adjusted gross total income. Adjusted total income = Gross total income– long term capital gain – sum of deduction u/s 80CCC to 80U (except 80G)

22.9 Section 80E- Deduction in respect of interest paid on Education loan: This deduction is to be allowed to the any of 4, i.e. Self/Father or Mother or Spouse ther shall now be eligible to claim deduction with respect to the interest paid on loan for the higher education U/S 80 E. The beneficiary may be dependent or independent. If the loan is taken for higher education from approved financial or charitable institution & payment made from his taxable income, then deduction is allowed without any upper limit subject to the following conditions:

(a) Higher education means - *all fields of study, including vocational studies, pursued after completion of schooling*

(b) Deduction will be allowed up to a maximum of 8 years from the first payment date.

22.10 Section 80EE- Honer loan Deduction of an amount maximum *Rs. 1 Lakh is allowable in respect of interest payable on Home loan,* taken for acquiring of residential house property subject to the following condition:

(i) The loan should be sanctioned in FY, 2013-14

(ii) The amount of loan should not exceed Rs. 25 Lakh

(iii) The value of residential property should not exceed Rs. 40 Lakh

(iv) The assessee does not have any residential property on the date of sanction of the loan

(v) The Interest claimed for deduction under this section can not be claimed u/s 24

22.11 Section 80 GDeduction in reference to payment of house rent:

Amount paid by assessee (which also : includes those employees also who are not getting house rent allowance) as house rent is allowed for deduction for the amount on whichever is less from the following:

- Rent paid – 10% of taxable income or,
- 25% of taxable income or,
- Yearly rent @ Rs 2,000 per month

For applicability of the deduction, one has to fulfil the following criteria :

(a) Assessee should not have house on his/ life partners or children's name at his working place. I shal also not have House at other than working place .

(b) As per rule 11B assessee has to give a declaration in prescribed *Form no. 10BA*

22.12 Section 80GGB Donation given to political party by Indian Companies:
Donation given through cheque to political parties registered u/s section 29A and electoral trust of People Representation Act 1951 will be fully deductible.

22.13 Section 80GGC: Donation given to political parties through Cheque by any person: Donation given to political parties registered u/s section 29A of *People Representation Act 1951* and electoral trust (excluding local organisation & corporation) will be fully deductible.

22.14 Section 80TTA: Deduction of maximum Rs.10,000 is allowable for individual and HUF, in respect of interest from savings accounts in a bank or in post office however interest on time deposit (fixed) and , recurring deposit are not eligible.

22.15 Section 80U: Deduction relating to permanent physical/ mental disability: If an assessee himself is handicapped then in case of general disability Rs.50,000 & in case of serious disability Rs.75,000 will be allowed for deduction. No matter it the amount actually spent or invested is less. As per *Persons with Disability Act, 1995*, disability more than 40% is called as *general disability* & disability of more than 80% is called as *serious disability*. More information is given on page 54 u/s 80DD of this magazine.

23 Agricultural Income

According to section 2(1A) agricultural income means any rent or revenue derived from the land which is situated in India & is used for agricultural purposes. This includes income earned in the form of rent by giving the agricultural land to other person for agricultural purpose, income earned during making crop saleable, income earned by selling of crop, income earned due to rent of the building on agricultural land .

Tax on agricultural income: As per section 10(1) agricultural income is totally tax free but for slab purpose it is added in to total income if, the net agricultural income is more than Rs. 5,000 and non-agricultural income is more than Rs. 1,00,000

Example: If Mohanlal is hav a total taxable income from business as Rs. 4,50,000 in the financial year 2014-15 and net agricultural income as Rs. 50,000 & he has not invested anything in tax saving scheme then what will be the income tax payable for FY 2014-15 ?

Solution:

(i) First of all calculate the tax liability on total (Agriculture + non-Agriculture) income
Total income = income from non-agricultural source + income from agricultural source
= 5,00,000 + 50,000
= 5,50,000
Tax liability on total income (including agricultural income) = Rs.35,000

(ii) Now to calculate tax liability only on agricultural income, add amount of agricultural income to basic exemption limit of income tax & calculate income tax as following:

Total agricultural income = Basic Exemption (IT) limit + Agricultural income
= Rs. 2,50,000 + Rs.50, 000
= Rs. 3,00,000
Tax liability on only agricultural income = Rs. 5,000

(iii) Since agricultural income is totally tax-free therefore deduct the tax liability increased due to addition of agriculture income in non- agriculture income (i) as following.

Total tax payable = Tax on non-agricultural & agricultural income – Tax on agriculture income
= Rs. 35, 000 – Rs. 5, 000
= Rs 30, 000

Conclusion: Thus if non-agricultural income Rs.5,00,000 is considered then income tax liability = Rs.25,000 but after adding agricultural income 50,000 in it, the tax liability on Rs.5,50,000 ? increases to Rs. 35,000 due to change in the slab. Now since agriculture income is tax free so tax liability Rs.5000 due to agriculture income [2,00,000+50,000] needs to be subtracted from overall tax liability of Rs.35,000 and thus net tax payable shall be Rs.30,000. From this it can be concluded that although agricultural income is tax-free but wherever due to addition of agriculture income, the total income increases and because of different slab of income tax, then tax liability is affected as above.

24 Clubbing of Income

Under some specific conditions, it is the responsibility of the assessee to pay the income tax on such person's income, which is directly or indirectly not the income of assessee. Description of this income is given in section 60 to 64. Some of the important points are as following:

(i) *No transfer or revocable transfer of property*, only transfer of income : For examples, Mohan has given authority letter to his younger brother Suresh for taking rent of his house. But if the ownership remains with Mohan, then in this situation income of house rent will be known as income of house property to Mohan.

(ii) *Income of life partner:* If wages are given to spouse (life partner) for his/her technical or professional ability then they cannot be clubbed. But if the assessee transfers some of his property to his/her life partner or daughter-in-law without taking any adequate consideration, then income from such property will be added to the income of life partner or daughter-in-law who received the property .

(iii) *Income of minor:* If the income of minor is more than Rs.1, 500 per year then it will be clubbed with mother's or father's income, whichever is more. Income of physically or mentally disabled child will not be clubbed. In the same way, if income of child is due to his ability (such as child artist, painter etc.) then also it will not be clubbed with parent's income.

(iv) *HUF:* If any person transfers his individual property to HUF (of which he is a member) then income due to this property will be added to the income of the person who is transferring the property.

Security Transaction Tax

Security transaction tax is applicable on turnover of transaction took place in approved Stock exchange for transfer of shares, options, securities and sale /purchase of units of equity mutual fund .
Since Oct 01, 2004, applicable as on Jun 01, 2013 as:

S.N.	Type of transaction	Nature of transaction	Rate	Payable by
1	Delivery Based	Purchase/Sale of equity shares	0.1%	Purchaser/Seller
		Purchase of equity oriented mutual fund units	Nil	
		Sale of units of equity oriented mutual fund	0.001%	Seller
2	Non-Delivery Based	Sale of equity shares, units of equity oriented mutual fund	0.025%	Seller
3	Option	Sale of an option in securities	0.017%	seller
		Sale of an option in securities, when option is exercised	0.125 %	Purchaser
4	Future	Sale of a futures in securities	0.01%	Seller

Equity-oriented Mutual Fund means the fund in which 65 % (earlier 50%) of investment is done in shares of domestic companies. It will be assessed on the basis of monthly or yearly average.

25 Rate of Income Tax

***(A) For* an Individual, HUF, Association of Persons or Body of Individuals and every artificial person**

Assessee Category	Applicable for Financial year 2013-14 / Assessment Year 2014-15		Applicable for Financial year 2014-15 / Assessment Year 2015-16	
For HUF /AOP/BOI Individual	Taxable Income up to Rs. 2,00,000	NIL	Taxable Income up to Rs. 2,50,000	NIL
	From 2,00,001 to 5,00,000	10%	From 2,50,001 to 5,00,000	10%
	From 5,00,001 to 10,00,000	20%	From 5,00,001 to 10,00,000	20%
	Above 10,00,000	30%	Above 10,00,000	30%
For Sr. Citizen > = 60 years	Taxable Income up to Rs. 2,50,000	NIL	Taxable Income up to Rs. 3,00,000	NIL
	From 2,50,001 to 5,00,000	10%	From 3,00,001 to 5,00,000	10%
	From 5,00,001 to 10,00,000	20%	From 5,00,001 to 10,00,000	20%
	Above 10,00,000	30%	Above 10,00,000	30%
For Sr. Citizen > 80	Taxable Income up to Rs. 5,00,000	NIL	Taxable Income up to Rs. 5,00,000	NIL
	From 5,00,001 to 10,00,000	20%	From 5,00,001 to 10,00,000	20%
	Above 10,00,000	30%	Above 10,00,000	30%

Notes :-

a. Here Taxable Income does not include the following because of having SPECIAL RATE of IT as:
   - i) Short term capital gain arisen from transfer of equities & units of equity oriented mutual fund. 15 % (Sec. 111 A)
   - ii) Long term capital gain (after indexation) 20 % (Sec.112)
   - iii) Income from winning of lottery & race course competition etc. 30 % (Sec. 115BB)

b. Rate of surcharge : @ 10% if total income exceeds Rs. 1 Cr. from FY 2014-15

c. Education cess : @ 2% (Higher Edu.cess) + 1% (Secondary Edu. cess)
   : i.e. 3% on total amount of income tax payable

d. Tax rebate for small tax payer A resident individual having taxable income up to 5 Lakh shall be entitled for a tax rebate of Rs. 2,000 or amount of net tax payable, whichever is less. (Sec. 87A)

(B) For Partnership firm, LLP, Local authorities and Domestic Company:-

a. Rates of Income Tax: Flat rate of 30% on total taxable income (without any slab)

b. Rate of surcharge *for firms* 10% if total income exceeds Rs. 1 Cr.
   for domestic co 5%, if taxable income is between Rs. 1 to 10 Cr.
   10%, if taxable income is more than Rs. 10 Cr.

c. Education cess : @ 2%(Higher Edu.cess) + 1% (Secondary Edu. cess)
   : i.e. 3% on total income tax (incl. surcharge applicable, if any)

(C) For Foreign companies Tax rate 40%
Surcharge 2% if total income exceeds Rs.1 Cr. and
5% if total Income exceeds Rs.10 Cr and
Education cess- @3% on income tax (inclusive of surcharge)

(D) MAT /AMT : Tax rate, -18.5% and surcharge, education cess, same as domestic company

26 Rate of TDS : At a Glance

Provisions related to TDS are explained u/s 192 to 206 in *Income Tax Act, 1961*. Some important points are of the Act in brief are :

The applicability of correct rate of TDS depends upon the following 3 consideration:

- Payment is being made *to* which category of Assessee?
- How much amount is being paid?
- Payment is being made in which head (purpose)?

Rates of TDS applicable for FY2014 - 2015

S. N.	Section	Type of Payment (Head)	Threshold limit of yearly payment	Rate of TDS (in %)
1	194A	Interest from Banking Co.	10,000	10%
	194A	Int. other than from Banking Co.	5,000	10%
2	194B	Winning from Lottery	10,000	30%
3	194BB	Winning from Horse Race	5,000	30%
4	194C	Payment to Contractors and sub contractors	Rs.30,000 in single payment & Rs.70,000 in aggregate in a FY.	1% for HUF/ individuals /AOP /BOI 2% for others
	194C	Transport Business Contractors		0%*
5	194D	Insurance commission	20,000	10%
6	194H	Commission Brokerage	5,000	10%
7	194I	Rent on Plant & Machinery	1,80,000	2%
	194I	Rent Other Than Plant & Machinery	1,80,000	10%
8	194J	Fees for Professional / Tech. Ser.	30,000	10%
9	204CE	TCS : Scrap	No limit	1%
10	206CA	TCS : Alcoholic Liquor for Human Consumption	No limit	1%
11	206 C	(a) mineral –coal/lignite/iron ore (b) If the sale is in cash then-- (i)Bullion(Excl. weight <10 gms) (ii) Jewellery	No limit More than 2 Lakh More than 5 Lakh	1% w.e.f. Jul 1, 2012

TCS - Tax Collection of Source

- In the above table, if the amount of payment is excueds the figure mentioned as threshold limit then only TDS shall be applicable. *For example:* If the sum of interest paid by a bank, during any financial year, is more than Rs.10,000 then only payee bank will deduct TDS, otherwise not.
- No surcharge and education cess shall be applicable on Basic rate of TDS for payments to all category of deductee other than foreign company.
- The deductee has to give PAN otherwise after April 1, 2010, in all such cases the rate of TDS shall be 20% or the specified rate, whichever is higher.
- If total income of deductee is less than basic exemption limit of Income Tax (i.g. for male assessee it is Rs.1,80,000 for FY 2011-12) then he can submit *Form 15G or 15H* as applicable and can get exemption from TDS deduction.

Provisions of TDS are ambiguous so please refer Income Tax Act, 1961 for more details

27 Payment of Advance Tax and Calculation of Interest

As per provisions of *Income Tax Act 1961*, every Assessee has to assess the expected tax liability, which may arise at the end of financial year, after considering all permissible deductions. If the estimated tax liability is more than Rs. 5,000 then the assessee has to pay Advance Tax in instalments, as per the following schedule:

Due date for payment of Advance tax during financial year	Instalments of Total estimated Advance Tax (in %)	
	For Company	Other tax payers (except Company)
15th June	15%	NIL
15th September	30% i.e. total 45 %	30%
15th December	30% i.e. total 75%	30% i.e. total 60%
15th March	25% i.e. total 100%	40% i.e. total 100%
31st March	Tax due on Income, arises after 15th March	

Advance Tax can be paid by challan No. 280 at any Nationalised Bank. SBI & some other banks offer online payment facility of Income Tax,

1. Income Tax paid up to 31st March against the Income earned, in the same Financial Year is called Advance Tax.

2. Generally, the Salaried Assessee need not pay Advance Tax as the Employer deducts TDS on salarywas months basis and deposits it to in Income Tax Department regularly. But if they have Income from other than salary head due to which the tax liability increases by more than Rs. 5,000 then they may be liable to pay Advance Tax as above.

27.1 Calculation of interest in case of short payment or excess payment of Income Tax

1. Rate of Interest - Levi able on shortfall in payment of Tax @ 1% per month or part thereof, subject to the following conditions.
   (a) Quantum of shortfall in payment of tax should be more than 10% of total tax liability.
   (b) No interest u/s 234C is leviable where the shortfall in payment of Advance Tax instalments is on account of underestimate / non-estimation of any capital gains or winning from lotteries, crossword prize, races etc.
   (c) For the purpose of calculating interest, the amount of shortfall shall be rounded to nearest Rs. 100, ignoring any fraction of 100. *For example; If shortfall is Rs. 2168, then take Rs. 2100 for calculation of interest.*

2. Where the Advance tax paid is more than Net tax liability, the excess shall be refundable to the Assessee. Where the excess is more than 10% of the tax assessed, the Govt. will pay interest @ 0.5% for every month or part thereof from the 1st day of the assessment year (1 April) to the date of grant of refund.

   [Sec.244A]

3. Chief Commissioners and D.G. (Investigations) are authorised to reduce or waive penal interest in some cases.

27.2 Interest Payable due to Deferment of Advance Tax

Advance tax is said to have been deferred if any of the instalments are not paid or paid less than the specified amount. In case of deferment of advance taxes simple interest @1% per month shall, be payable for the period as specified in following table. [U/S 234(C)]

For deferment in any of the quarter i.e. June / Sept / Dec.	Simple interest on the *cumulative* amount of short fall @ 1% per month for 3 months .
For the deferment in the last quarter i.e. in March	Simple interest on the *cumulative* amount of short fall @ 1% per month for 1month

2. If total tax paid (Advance Tax + TDS) is less than the net tax liability, then interest @ 1% /month or part thereof shall be levi able on amount of shortfall, for the period - from the 1st day of assessment year (1st April) to actual date of payment of tax. **[U/S 234 (B)]**

Example: Mr. Ram, has estimated the tax liability, for FY 2013-14 as Rs. 10,000 and paid advance tax in 3 instalments as Rs. 3,000 up to Sept. 15th 2012, Rs. 3000 on Dec.15th 2022 & Rs. 4,000 on March.15th 2013.

But at the time of preparation of return the final tax liability came as Rs. 15,000. Calculate the balance tax & interest liability to be paid on July, 10th 2013 before filing of return.

Sol: (A) Short payment of tax = Net tax liability – Advance tax paid
= 15,000 – 10,000 = 5,000

(B) Interest payable due to short payment of advance tax (U/S 234C) - *up to the end of financial year i.e. 31st March.*

Due date	Cumulative tax payable	Actually paid	Balance	Net Interest Due
Up to 15 Sept.	15,000 x30% = 4,500	3,000	1,500	1,500x1% x 3months = 45
Up to 15 Dec.	15,000 x60% = 9,000	6,000	3,000	3,000x1% x 3months = 90
Up to 15 Mar	15,000 x100%= 15,000	10,000	5,000	5,000x1% x 1months = 50
Total			5,000	185

(C) Interest payable due to short payment *after the end of financial year.* [U/S 234B]
Expected date of payment of short tax is July 10, 2013.
So interest payable = Short payment x 1% x period (1 April to 10 July)
Rs. 200 = Rs. 5000 x 1% x 4 month

(D) Total tax payable on July, 10, 2013= Balance Income Tax + Interest
= 5000 + (185 + 200)
= 5383

28 Annual Information Return

Income tax department has made it mandatory to file annual information Return in the Form 65 (in Cash Deposite) to certain Agencies, which are related to following special transactions:

Nature and value of Transaction	Responsible for filing of Return
Cash Deposit of Rs. 10 Lakh or more in a year in Saving A/c	Bank
Payment of Rs. 2.00 Lakh or more in a year by Credit card holder	Credit Card issuing Agencies
Receipt from any person of Rs. 2.00 Lakh or more for acquiring Units of Mutual fund	Mutual Fund
Receipt from any person of Rs. 5.00 Lakh or more for acquiring Bond / Debentures	Issuing Agency
Receipt from any person of Rs. 1.00 Lakh or more for acquiring Shares	Issuing Company, Public/Right issue
Purchase/Sale of Immovable Property or Rs. 30.00 Lakh or more	Registrar / Sub-Registrar
Receipt from any person of Rs. 5.00 Lakh or more in a year for acquiring RBI Bonds	Authorized person of RBI

So the people who are involved in above transactions should keep the records of the transaction and should also include the details of above transactions in the return.

29 Hindu Undivided Family (HUF)

Hindus have a typical concept of family. Normally an elder person of the family acts as a chief. Other persons residing in the house are family members. Every family member, including the chief, has the right on income of the family either gained through ancestors or earned by the members combined. But individually earned income remains in that particular person's name who earned it & after his death he can nominate somebody as heir through will.
Income Tax Department has given recognition to this type of family pattern. According to this, liability of payment of income tax on income earned by individual lies with the individual but if income belongs to HUF, then the liability of payment of income tax goes to the chief of HUF. If HUF has any source of income, then for better Tax planning, Tax liability can be divided into individual & HUF & returns for both can be filed separately.

Other facts regarding HUF are :

- Minimum two members are required for HUF. Daughters-in-law & unmarried daughters can also be the members.
- Tax liability for HUF is normally same as for individual e.g. Income up to 1.8 Lakh is Tax free for Financial Year 2011-12 etc.
- Capital of HUF can be made though ancestral property, gifts or income earned by combined efforts of members.
- HUF can utilise its fund by way of their investment, partnership in firms or by purchasing property.

Gift should not be taken from member of HUF because of clubbing provision. But gift from non-member relative can be taken as it does not attract clubbing of income.

30 Why ? When ? and Where ? to File Income Tax Return ?

30.1 Why is it necessary to file the return?

A *general perception towards filing of the return* is that since the Employer or Bank has deducted TDS, so we don't have to pay any income tax additionally therefore filing of the return is not necessary. But this is not a correct view. A person who satisfies the criteria given in the following table has to file voluntary return. And if return is not filed till the end of assessment year then assessment officer may impose a penalty of Rs. 5,000 u/s 271(F)

Category of Assessee	Criteria of filing of voluntary return
Individual H.U.F. A.O.P./ B.O.I. Artificial juri.Person	If the *total taxable income* earned during any financial year, is more than the basic exemption limit of the income tax (for FY 12 - 13for male and female: Rs. 2.00 Lakh and for Sr. citizen 2.50 Lakh), then filing of return is compulsory for that year. However salari ed having taxable income not exceeding 5 Lakh are exempted from filing of IT return with some conditions.
Company, Local Body, Partnership Firm	Filing return every year is compulsory without any income limit.

Filing return is also compulsory for those persons who want to take refund from income tax department because of excess deduction of TDS or any other reasons. It is mandatory to file return before due date under section 139(3), for the persons who want to adjust previous year's loss under the head of business, with next year's profit.

30.2 What are the due dates for filing of income tax return?

Category of assessee	Due date of assessment year
Company and other assessee where auditing is necessary	30^{th} September
Other than above category of assessee	31^{st} July

Returns can be filed after the due date till the end of assessment year i.e. 31^{st} March without any penalty (Provided no tax is due for payment). If tax payment is due then also return can be filed along with interest (@1% per month) on balance amount of tax.

30.3 Where to file the return? As per Section 124, return can be filed in the office of Income Tax Officer under whose jurisdiction, either Assessee's residence or principal place of business/ profession falls.

30.4 How to file the return? Assessee can file the return by himself or through tax consultant or by registered post in the prescribed format at the office of the Area Income Tax Officer. E-filing of return through internet is compulsory for the employee having taxable income Rs.10 Lakh.

30.5 Revised return: u/s 139(5): If Return is filed before due date and any mistake has appeared unintentionally then revised return can be filed up to the end of one year from the assessment year or before the assessment of return is done by IT Dept., whichever is earlier.

30.5 Belated Return u/s 139 (4): A Return can be filed even after the due date up to one year from the end of the relevant assessment year or before the completion of the assessment , whichever is earlier. It may attract penalty and interest as well.

31 Preparation of e-TDS Return

- From Apr 1, 2005 it is mandatory for all deductors of Central and State Governments & corporate to file their TDS Returns on electronic medium. Return is to be filed quarterly as per the following Schedule (Section 200(3) and provision to sub section 3 of section 206C). To enable e-filing of TDS returns, a free TDS return preparation software along with return validation utility is available on sites at *www.tin-nsdl.com.* The software can be download free.
- e-TDS return is a TDS return prepared in *Form No.24Q, 26Q or 27Q* in electronic media as per prescribed data structure in either a floppy or a CD ROM. The floppy or CD ROM thus prepared should be accompanied by a signed verification in *Form No.27A*.
- Returns can be filed through the e-TDS intermediary i.e. NSDL through the network on TIN-Facilitation centres. The details of the same are available on www.tin_nsdl.ww.
- Obtain and quote correct Permanent Account Numbers (PAN) of the deductee in the return. You can run enquiry about the PAN of your deductee online.
- PAN of the deductors has to be given by non-government deductors. It is essential to quote PAN of all deductee failing which credit of tax deducted will not be given.
- You can check status of the TDS/TCS return filed by you on the aforementioned websites. You can also check whether the deductee wise tax has been credited to the ledger account of the concerned deductee. Use challan 281 for deposit of TDS/TCS but not Challan 280,282 or 283
- Quote the correct Tax Deduction Account Number (TAN), name & address of the deductor on each challan before depositing the tax. Do not make any mistake in mentioning the Financiale year & AY.
- Use separate challan to deposit tax deducted under each section and indicate the correct nature of payment code in the relevant column in the challan.
- After the taxes are paid, the collecting bank branch will give you a counter foil as acknowledgement for the taxes paid. Ensure that the bank has mentioned the *Challan Identification Number (CIN)* on the counter foil. If not, immediately take up the matter with the bank. Verify the correctness of CIN (through Challan Status Enquiry at *www.tln.nsdl.com)* before including he in the statement.
- The challan amount mentioned in the relevant items of the statement should be exactly the same amount as deposited through the challan. This will enable matching the challan details provided by you in the statement with the challan details uploaded by the banks.
- Against each challan indicate the details of deductee on whose account the tax has been deducted. Even if the actual tax paid through the challan is higher than the amount of tax deducted on account of the deductee, challan details should contain the amount paid as mentioned in the counter foil.
- Particulars of only those employees are to be reported from the 1st quarter onwards in *Form- 24Q* in whose estimated income for the whole year is above the threshold limit and tax is deducted in each quarter and is reported in *Form-24Q* from quarter onwards.
- In case the estimated income for the whole year of an employee, after allowing deductions for various savings like GPF etc. comes below the taxable limit, his particulars need not be included in *Form-24Q*.

32 Frequently Asked Question (FAQ)

Q1 *In FY14-15, my income from salary was Rs.5.90 Lakh I invested Rs.1.00 Lakh in specified tax saving schemes and TDS has been deducted by me employer, Should I get tax rebate of Rs.2000 as declared in budget 2013.*

Ans. Yes, because your total taxable income is (5.9 -1.0 =) 4.9 Lakh i.e., not exceeding Rs. 5 Lakh. So tax rebate of Rs. 2000 u/s 87 A, shall be allowable.

Q2 *In FY14-15, my income from salary may be Rs.6.50 Lakh. My employer and I have invested Rs.40,000 and 40,000 in new pension system which is 10 % of salary. I have invested Rs.1,10,000 in PPF how much I can claim as deduction from income?*

Ans. From FY11-12, you may claim employer's contribution Rs.40,000 in addition to the Rs.1 Lakh as limit specified u/s 80 CCE, thus your income from salary shall be Rs. 6.50 Lakh + 40,000 i.e. Rs. 6,90,000 and you may claim total deduction for Rs. 1,90,000 i.e. 1,50000(1,10,000+40,000) + 40,000 (employer contribution) ; thus net taxable income shall be Rs. 5.0 Lakh.

Q3 *I have sold units of debt mutual fund on Jun 5, 2014 after 1 year of its purchase date. At what rate I have to pay tax on the capital gain ?*

Ans. New provision of capital gain on units of debt mutual fund shall be applicable on transaction held after 10 July 2014; So you can pay tax @10%, *if indexation benefit* is not taken, treating the gain as long term capital gain.

Q4 *I am a salaried employee and my taxable income (total income) (salary income +other income etc – deductions u/s 80 C etc.) is more than 5 Lakh in FY12-13. can I file paper return through CA as usual?*

Ans. No, you have to file return electronically, but with or without digital signature.

Q5 *What are the new provisions of income tax for businessmen?*

Ans. From FY10-11, the businessmen whose annual turn over is up to Rs. 1crore can estimate his income @8% of total turnover and file return. There is no need to maintain specific books of account. For knowing the formula of zero income tax for those businessmen please read page 42-43 of the magazin.

Q6. *I have paid interest of loan taken for higher education (B.Com) of my child and wife. Can I get deduction under section 80E for financial year 2010-11?*

Ans. Yes, from FY 09-10, the Individual can get deduction for the Interest paid during first 8 years against the loan taken for higher education (including– B. Com also) for his dependent or independent children or spouse (wife / husband).

Q7. *I have paid Premium of Rs. 9,000 for Health Insurance of my wife & Premium of Rs. 20,000 for Health Insurance of my mother (Sr. Ctz) in FY, 2011-12 through cheque than is paid Rs.6000 for preventive health check up of self in cash . How much amount is eligible for claiming rebate from income tax?*

Ans: U/s 80D - an Amount of Rs. 14,000 {9,000+5,000(spent 6000 for health check up but allowable is 5,000)} is eligible for deduction from income & From FY08-09, in addition to above, an amount up to Rs. 20,000 is also eligible for deduction from income for health insurance of Sr. Ctz parents. Thus, total Rs.34,000 is eligible for deduction from FY11-12.

Q8 Can I get deduction from income against investment made in Bank/PO fixed deposit for 3 years in the financial year 2010-11?

Ans.: No. Investment made in scheduled bank / PO as fixed deposit for 5 years & more is only eligible for deduction u/s 80 C with overall limit of Rs.1 Lakh Including investment made under 80 CCC & 80 CCD).Loan against investment made in F, D in not allowed and interest earned every year on F, D, is taxable.

Q9. IS form 16 for FY2013-14 prepared and issued by office is valid?

Ans: Yes, as per circular no 4 dtd Apr 17, 2013 issued by department of Income tax, DDO has to issue *Part "A' of form 16* by downloading it from - www.tdscpc.gov.in., where automatic serial number shall also get printed in "part A" of *Form 16.*

Q10. What is the penalty for not filing It retiars and whether returns can be filed after the due date?

Ans: Yes, returnscan be filed after due date but up to the end of assessment year, i.e., for financial year 2013-14 the returns can be filed up to Mar 31, 2014. If return is not filed till this date, then penalty of Rs.5000/- can be charged under section 271.

Q11. What are the Income Tax provisions on Shares Sales –Purchase Benefits?

Ans: If share (equity) / units of equity-oriented mutual fund are sold after 1 year from purchase date *&with investment purpose*, then capital gain, arising from such transfer will be treated as long term capital gain and shall be fully tax-free, otherwise capital gain, will be treated as short term capital gain & taxed @ 15% u/s, 111A & 115AD

Q12. When it is necessary to get audited the accounts?

Ans: Under sections 44 AB of Income Tax Act, if the total sale or receipts of a Businessman in a financial year is more than Rs. 100 Lakh or income from profession is more than Rs. 25 Lakh, then auditing of accounts through Chartered Accountant is compulsory.

Q13. What is the difference between Total Income & Gross Total Income?

Ans: Summation of Income from different sources to an assessee is called *Gross Total Income* and after making deductions under section 80CCC to 80U, the balance amount is called *Total Income.* It is also called as *Taxable Income.*

Q14. Can deductions of House Loan Interest & HRA can be claimed at the some time ?

Ans: Yes. If you are residing in a rented house & you have purchased/constructed a house by taking loan but because of business or service you are not residing in that house & the house is vacant (i.e. not given on rent), then you can claim both ... of house loan interest + NCA at the some time.

Q15. I have taken loan from my office for constructing a house but repayment is being adjusted against principal amount. Can I claim for accrued interest on loan?

Ans: Yes. Deduction of accrued interest is allowed under section 24 for self-occupied house up to upper limit of Rs. 2.0 Lakh, i.e., actual repayment of interest is not necessary.

33 Rights/Duties of Tax Payers during Search, Seizure & Survey

Indian Income tax procedure is mainly based on Self Assessment System. Normally an assessee pays the tax to Income Tax Department after calculating the Income Tax on his income earned. Afterwards, he provides the information about his income & payment of Income Tax to the Income Tax Department by filing of the Income Tax return. Income Tax Officials check these returns randomly.

Readers are advised to file the returns either by themselves or with the help of consultants before the due date, every year. If they come under the criteria of filing of returns they should not forget to maintain proper accounts, so that they can provide the facts & figures to the officials of IT Dept. as & when required.

Income Tax Surveys are of three types:

(1) Normal Survey: Under section 133B, survey is being conducted for making new tax payers by moving around house to house & shop to shop. The information is collected in *Form No. 45 D*. If the persons are already filing the return, then they have to mention their names, address & Pan No. etc in the prescribed columns. While doing the survey Income Tax official can enter into any commercial establishment & can also ask the person present to fill up the *Form No. 45 D*, but he cannot demand for account ledger for checking. If a person fails to submit the desired information in *Form No. 45 D* even after receiving a notice from Income Tax Department, then he can be penalised under Sections 272AA for Rs.1,000. Assessee has the power to ask the survey officer about his Identity Card & if needed he can call his legal consultant to be present during the survey under section 22(1).

(2) Survey of expenses occurred on marriage parties: Under Section 133A (5), survey can be conducted to collect the information regarding expenses of marriage & parties. The Income Tax officer has the power to ask the assessee or other persons the details related to marriage or parties. He can record the statement without giving any threat etc. Assessee has also the right to take a true copy of the recorded statement.

(3) Special Survey: Under Section 133 A (1), detailed survey can be conducted of the commercial establishments of a particular assessee. In this survey, the officer can enter into the commercial premises during the business hours only. Once the survey has started then it can continue after the business hours also at other places where accounts cash or stock could have been kept. The survey can start after sunrise & before sunset. But after start it can continue after sunset also. Income Tax Officials cannot remove or seize the stock, cash or other valuable goods but can evaluate the things. Premises cannot be sealed during the survey.

It is the moral responsibility of assessee to give full support to the investigating officer. For Non-Corporation, penalty of Rs. 10,000 can be imposed under section 272 A (1). During the survey itself, Assessee can declare his income & it will depend on the nature of the caseto sea if penalty be imposed or not?

34 Income Tax Search & Seizure

As per section 132 of Income Tax, search operation takes place only when Income Tax Department has some strong evidence against an assessee. Either the Tax Payer is having undeclared property, income or even after getting a notice, he has not produced the desired info Criteria of filing of voluntary return /accounts. Competent officer issues notice separately for search and seizure in which, name of the person (against whom the action has to be taken) and names of the officers for search operation are mentioned.

During the search operation Income Tax Officer possesses the following power but he cannot arrest anybody:

- The officers can enter into any building, place or vehicle owned by the person. They can even search the persons coming to these areas. They can break the locks of almirahs and locker for search.
- They can check the accounts & other related documents & can seize them.
- They can seize cash, Gold or Silver, Jewellery above the limit* *(* One can possess jewellery without any record as 500 gms. per married lady, 200 gms. per unmarried lady & 100 gms. per male member)*. If these articles are used as Stock in Trade, then instead of seizure an inventory note is prepared.

Rights of the Assessee :

An assessee may:

- check the notice & identity cards of officers engaged in the search operation
- check the officers before & after the search operation
- keep two local persons as witnesses & if necessary, can call a doctor
- remain present during search operations
- appoint tax consultant, CA / Lawyer to present his case during the search operation
- ask for lady officials to check his female relatives
- go for his regular work such as Pooja, taking food etc.
- send his children to school after checking their schoolbags
- move outside the premises with due permission of the Competent Officer
- check the statements written by the Income Tax Officers
- take true copies of Panchanama, Statement & other related documents
- sign on the paper seal put on the seized goods. & recheck his signature at the time of breaking the seal in court or other places
- oppose for seizure of such goods, not authorised by income tax lows
- ask the competent officers to seize goods worth equivalent to the amount of income tax as may be due and take back other seized goods under section 132 (5) after the search operation is over

Duties of the Assessee:

An assessee should:

- not restrict the Income Tax Officials from checking his premises
- handover the keys of Lockers & Almirahs for peaceful operation
- introduce the persons present in his house & their relation to the officers
- sign the recorded statements & Panchnama after carefully reading them
- not remove any thing from the premises without intimating the officials
- give the statements as per his knowledge to the Officials
- not give any unwanted evidence or any false statement. If fount, he guilty, can be penalised under section 179/181/191 of Indian Penal Code.

35 Penalties and Prosecutions

Penalties

No penalty can be imposed to the assesses without allowing a reasonable opportunity of being heard to the Assessee.

SN	Default / Offence	Penalty
1	Default in making payment of any tax	Not exceeding the amount of tax in arrears U/S 221 (1)
2	Concealment of particulars of income or fringe benefit or furnishing inaccurate particulars of income for fringe benefit	Not less than the amount of tax sought to be avoided and not exceeding three times the amount of tax sought to be evaded. U/S 271(1)(c)
3	Failure to maintain prescribed books or accounts and documents by persons carrying on business or profession.	Rs. 25,000 U/S 271(A)
4	Failure to get the accounts audited or to furnish the audit report before the due date for filing of return.	0.5 % of total sales, turnover or gross receipts or Rs. 1,50,000 whichever is less. U/S 271(B)
5	Failure to deduct tax at source	Amount equal to the tax which he failed to deduct or pay U/S 271(C)
6	Accepting any loan or deposit of Rs. 20,000 or more otherwise than by Account payee cheque.	Amount equal to the loan or deposit so accepted. U/S 271(D)
7	Failure to answer any question in contravention of legal colligation sign any s tatement made by him or comply with summons.	Rs. 10,000 U/S 272(A)
8	Failure to apply for allotment of Permanent Account Number (PAN).	Rs. 10,000 U/S 272(B)
9	Knowingly quotes a false PAN No. in any document	Rs. 10,000 U/S 272(B)
10	Failure to apply for allotment of Tax Deduction or Collection Account No.	Rs. 10,000 U/S 272(B)

Procedure for imposing Penalty

The penalty proceedings may be initiated either in the course of the assessment proceedings or separately. Penalty may be imposed, if the Assessing Officer is satisfied that there is a default on the part of the assessee. If the Assessee can prove and satisfy the Assessing Officer that there was a reasonable cause for the default, then penalty should not be imposed except u/s 221(i) &271(i) (C).

[Sec. 273B & 274]

Prosecution

Any person committing the offence is liable for being prosecuted. It is not necessary that the person should be an Assessee under *Income Tax Act*

The Chief Commissioner or Director General of Income Tax is empowered to compound an offence either before or after the prosecution proceedings. These powers are, however, discretionary and cannot be challenged in the Court of Law.

SN	Offence	Punishment
1	Removal or parting with or otherwise dealing with books of account, documents, money, bullion, jewellery or other valuable article or thing put under restraint during the search	Rigorous imprisonment up to two years and fine (Sec. 275A)
2	Failure in affording the authorised officer, the necessary facility to inspect the books of account or other documents U/S 132(1)(iib)	Rigorous imprisonment up to two year s and fine (Sec. 275B)
3	Fraudulent removal, concealment, transfer or delivery of any property or any interest in the property with the intention to thwart recovery of tax	Rigorous imprisonment up to two years and fine (Sec. 276)
4	Failure to deposit the tax deducted at source or tax collected at source	Rigorous imprisonment up to seven years (not less than 3 months) and fine (Sec. 276BB)
5	Wilful attempt to evade any tax, penalty or interest	Rigorous imprisonment up to seven years (Not less than three months) and fine (Sec. 276C(1))
6	Wilful attempt to evade the payment of any tax, penalty or interest levied under Income Tax Act.	Rigorous imprisonment up to three years (not less than three months) and fine (Sec 276(C)(2)
7	Wilful failure to furnish in due time return of income for return of fringe benefit	Rigorous imprisonment up to seven years (not less than 3 months), and fine. (Sec.276CC)
8	Wilful failure to produce accounts and documents as directed by issue of notice u/s 142(1), or to get the accounts audited as directed u/s 142(2A)	Rigorous imprisonment up to one year or fine or both (Sec. 276(C)
9	Making of a statement in verification or delivery of an account or statement which is false and which the concerned person knows or believes to be false or does not believe to be true	Rigorous imprisonment up to three years (not less than three months) (Sec. 277)
10	Falsification of books or documents, etc. to induce or shed any other person to evade any tax, penalty or interest	Rigorous imprisonment up to three years (not less than three months) and fine (Sec. 277A)
11	Abetting or inducing another person to make and deliver an account or statement or declaration relating to any taxable income or taxable fringe benefits which is false and which he either knows or believes to be false	Rigorous imprisonment up to seven years (not less than three months) and fine (Sec. 278)

36 Service Tax

Central Govt. has introduced service tax from Jul 1, 1994. Some important facts related to service tax act are as follows:

1) No registration charge
2) Deemed Registered within 7 days of application.
3) Service tax is payable only if cost of services has been received.
4) No need of maintaining any specific records.
5) Adjustment of paid service tax can be possible for self-gained services.
6) Facility of refund is available in case of excess payment.
7) It is the liability of service provider to pay the service tax.
8) Rate of Service tax and date of applicability changes from time to time as follows:

Date of Applicability	Tax on Net Value of Services
(a) 01-07-1994	5 %
(b) 14-08-2003	8 %
(c) 10-09-2004	10 % + 2 % Education cess. Effective 10.20 %
(d) 18-04-2006	12 % + 2 % Education cess. Effective 12.24 %
(e) 01-04-2007	12 % + 3% Education cess. Effective 12.36 %
(f) 24-02-2009	10 % + 3% Education cess. Effective 10.30 %
(g) 01-04-2012	12 % + 3% Education cess. Effective 12.36 %

9) The basic exemption limit of total value of taxable services, chargeable to the service tax, has been increased from zero to Rs. 4 lakh w.e.f. Apr 1, 2005.The threshold limit of service tax exemption limit for service providers has been increased from *Rs. 8 Lakh to Rs. 10 Lakh* as per *Finance Act, 2008.*
10) Return of service tax has to be filed half yearly, in central excise office of the region, on self-Assessment basis.
11) Payment of due service tax on taxable services provided by corporate assessee has to be made by 5th Day of coming month where as individual assessee has to pay service tax on 5th day of coming month after each quarter.
12) Those persons who provide more than one service can obtain service tax code on single application & pay tax in notified banks through *Form No. TR6.*
13) For late payment, penalty is charged @ 15 % per annum.
14) If an assessed fails to apply for registration of service tax, then a penalty of Rs. 500 can be charged under section 75 (a) of Service Tax Act.
15) On non-payment of service tax, penalty @ Rs.100 to 200 per day can be charged along with interest maximum up to the value of service tax.
16) If return is not filed, penalty of Rs. 1,000 can be charged.
17) W.e.f. July 1, 2012 all services, which are not covered under negative list and list of service exempt form service tax net; shall be taxable @12.36%.

Please refer to page 14 of the magazine to know the major changes in the provisions of service tax through Budget 2014

37 Negative List of Services not liable for service tax: budget 2012

1. Services by the Government or a local authority excluding the following services to the extent they are not covered elsewhere:
   - i. services by the Department of Posts by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government
   - ii. services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport
   - iii. transport of goods or passengers or
   - iv. support services, other than services covered under clauses (i) to (iii) above, provided to business entities.
2. Services by the Reserve Bank of India.
3. Services by a foreign diplomatic mission located in India.
4. Services relating to agriculture by way of:
   - i. agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or seed testing
   - ii. supply of farm labour
   - iii. processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter essential characteristics of agricultural produce but make it only marketable for the primary market
   - iv. renting or leasing of agro machinery or vacant land with or without a structure incidental to its use
   - v. loading, unloading, packing, storage or warehousing of agricultural produce
   - vi. agricultural extension services
   - vii. services by any Agricultural Produce Marketing Committee or a Board or services provided by a commission agent for sale or purchase of agricultural produce.
5. Trading of goods
6. Any process amounting to manufacture or production of goods
7. Selling of space or time slots for advertisements other than advertisements broadcast by radio or television
8. Service by way of access to a road or a bridge on payment of toll charges
9. Betting, gambling or lottery
10. Admission to entertainment events or access to amusement facilities
11. Transmission or distribution of electricity by an electricity transmission or distribution utility
12. Services by way of
    - i. pre-school education and education up to higher secondary school or equivalent
    - ii. education as a part of a curriculum for obtaining a qualification recognized by law
    - iii. education as a part of an approved vocational education course
13. Services by way of renting of residential dwelling for use as residence
14. Services by way of:
    - i. extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount;

(ii) sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers

15. Service of transportation of passengers, with or without accompanied belongings, by :

i. a stage carriage

ii. railways in a class other than – (A) first class; or (B) an air conditioned coach

iii. metro, monorail or tramway

iv. inland waterways

v. public transport in a vessel of less than fifteen tonne net, other than predominantly for tourism purpose and

vi. metered cabs, radio taxis or auto rickshaws

16. Services by way of transportation of goods – (i) by road except the services of (A) a goods transportation agency; or (B) a courier agency; (ii) by an aircraft or a vessel from a place outside India to the first customs station of landing in India; or (iii) by inland waterways

17. Funeral, burial, crematorium or mortuary services including transportation of the deceased

18. Vocational courses offered by institutes affiliated to the State Council of Vocational Training and Testing activities in relation to agricultural produce .

38 What is Goods & Service Tax (GST)?

- GST is a comprehensive *Value Added Tax (VAT)* on supply of goods & services. And shall be levied at each sales/service point when the price of sales/service increases that is some value is added and the tax shall be levied on such value addition.
- Consistent with the federal structure of the country, GST will have 2 components: one levied by the Centre (as Central GST), and the other levied by the States (as State GST).
- Taxes paid against the Central GST shall be allowed to be taken as *Input Tax Credit (ITC)* for the Central GST and could be utilized only against the payment of Central GST. The same principle will be applicable for the State GST. Cross utilisation of ITC between the Central GST and the State GST would, in general, not be allowed.
- Threshold exemption is built into a tax regime to keep small traders out of GST net.
- Central Taxes to be merged under GST: Central Excise Duty, Additional Excise Duties, Service Tax, Additional Customs Duty, Commonly known as Countervailing Duty (CVD) and *Special Additional Duty of Customs (SAD)* 4% Surcharge, Cesses
- *State Taxes to be merged under GST*: VAT / Sales tax, Entertainment tax (unless it is levied by the local bodies), Luxury tax, Taxes on lottery, betting and gambling, State Cesses and Surcharges, Entry tax not in lieu of Octroi.

Existing				As per GST			
Particulars	**Rate**	**Tax**	**Total payable**	**Particulars**	**Rate**	**Tax**	**Total payable**
Step I - Manufacturer to Wholesaler							
Base price			1,000	Base price			1,000
Excise duty	8.2%	82	1,082	Central GST	8%	80	1,080
State VAT	12.5%	135	**1,217**	State GST	8%	80	**1,160**
Step II - Wholesaler to Retailer							
Wholesaler sale price (5 % profit)			1,278	Wholesaler sale price (5 % profit)			1,218
				Central GST	8%	97	
State VAT	12.5%	160		Input tax credit - CGST		80	
				Net tax added for CGST		17	1,235
State VAT -input tax credit		135		State GST	8%	97	
				Input tax credit - SGST		80	
Net tax Added		25	**1,303**	Net tax added for SGST		17	**1,253**
Step III - Retailer to Customer							
Retailer sale price (10 % profit)			1,433	Wholesaler sale price (5 % profit)			1,378
				Central GST	8%	110	
State VAT	12.5%	179		Input tax credit - CGST		97	
				Net tax added for CGST		13	1,391
State VAT -Input tax credit		135		State GST	8%	110	
				Input tax credit - SGST		97	
Net tax Added		44	**1,477**	Net tax added for SGST		13	**1,404**
Thus net reduction in price after GST may be Rs. 74 i.e. almost of 5%							

1 Better Investment Planning

A. Why to Invest ?

First of all identify the purpose of investment from the following:

(A) Unexpected Events
- (1) Natural calamity
- (2) Serious illness of self or family members
- (3) Sudden death/disability due to accident

(B) Expected Events
- (1) For saving income tax
- (2) For growth & security of wealth (money)
- (3) Fixed expenditures like Children's Marriage, Education etc.
- (4) Construction of Home, Purchasing of vehicle etc.
- (5) Getting monthly income currently or pension for future

According to the basic rules of investment, one should invest first to cover for unexpected events to secure future of one's family. *one can then set priority amongst identified purposes & plan accordingly.*

B. Where to invest ?

As per the purpose of investment, market survey of available options (plans) should be done by considering the following 5 factors:

(1)	Risk Factor	---	High, Medium, Low
(2)	Growth pattern	---	Fixed or Variable
(3)	Growth potential	---	High, Medium, Low
(4)	Liquidity	---	Repurchase facility at any time or after a fixed period
(5)	Income tax Liability	---	Tax provisions at the time of investment, Growth & Repurchase

C. When to invest ?

(A) For investing in insurance segment, try to invest at an early age. If the tax saving is the only purpose, then invest in the name of minors so that low premium may yield more benefits.

(B) For investing in mutual fund segment choosing a right time is very important. Normally one should invest in equity linked schemes of mutual fund when the share market is near to lowest level (Generally once or twice in a year).

(C) At the beginning of the year one should calculate estimated income tax & invest in various plans for the purpose of tax saving so that burden of income tax payments & investments doesn't come together at the end of the financial year.

D. What to do - After Investment

Do not forget the investment after investing and always look for information which may affect the profitability of your investment, such as:

(i) National or international political movements
(ii) National calamities (Earthquake / Flood/ Draught)
(iii) Change in Financial situations & budget, policy matters etc.

If your investment is in high-risk plans, you are advised to consult your investment consultant weekly.

2 Where to Invest as per Direct Tax Code Bill 2010

According to *Direct Tax Code Bill, 2010*, tax provisions on different scheme of investments are as under:

I. Investment scheme for tax saving purposes : Following 5 schemes are eligible for tax saving purposes to individual and HUF, up to a total limit of Rs.1.5 Lakh:

S.N.	Scheme of Investment	Why to Invest?	Whether Earned Interest / bonus is Tax Free ?	Tax Model	Limit of invest-ment
1	Contribution in GPF / CPF	Mandatory and Secured Investment	Yes	EEE	Total 1.0 Lakh
2	Contribution in -PPF for self, spouse or children		Yes	EEE	
3	Contribution of assessee / employer in New pension scheme NPS, up to the limit of 10% of salary	To meet expenses after retirement	Yes	EEE	
4	Premium paid for Life Insurance scheme of LIC/ Private insurance co. / Postal Insurance for individual-husband/wife/children(married/unmarried/major/minor) where annual premium is up to 5 % of Sum Assured	Risk cover to meet future expenses	Yes	EEE	Total 0.5 Lakh
5	Premium paid for Health Insurance for self husband / wife / any dependant child /parents	To meet unpredictable expenses	Yes	EEE	
6	Amount paid towards tuition fees for full time studies in college, university, school or other educational institute situated in India for up to 2 children only	Mandatory Expenses	-----		

2. Equity (shares) / Equity-oriented Mutual Fund :

   i. *If invested for a period of 12 months or more* then total amount received after sale (repurchase) of shares/units shall be totally tax free.

   ii. *If invested for a period of less than 12 months* then 50% of the amount of gain / loss shall be added / subtracted in the taxable income of such investor and then tax shall be calculated as per the tax slab applicable to such taxable income.

3. Other Assets – Land, house, gold, Bank FD, other mutual fund etc.: Interest received/due shall be taxable. Any capital gain received after sale (transfer) of asset shall be taxable but if such sale is done after 12 months period of purchase then the amount of gain shall be reduced by indexing and finally such capital gain shall be added to taxable income of such an investor and then tax shall be calculated as per the tax slab applicable whereas capital loss can be set off with capital gain only in future.

3 How to Save Income Tax ?

An assessee should always calculate the estimated income tax at the beginning of the year and start investing for tax saving purpose, as per their convenience so that at the end of the year the burden of investment and payment of tax doesn't come togethe.

Income tax can be saved by opting any /all options, available as following:

1. By Investment : Assessee should invest in such a way that aggregate amount of investment made in various schemes under section 80C, 80CCC & 80CCD should not be more than Rs.1.5 Lakh u/s 80 CCE[*but excluding the contribution of employer towards NPS up to maximum 10 % of the salary]*:

   - U/S 80/C: Under this section maximum investment of Rs. 1.5 Lakh can be made in saving schemes like GPF / PPF / LIC / GIS / Postal Life Insurance / NSC / NABARD bond / Equity linked Savings Scheme (Tax Saving Mutual Fund) / Fixed deposit (FD) in *Bank/PO for minimum* 5year ; without any sectorial limits.
   - U/s 80CCD: Contribution of assesses & Employer (NPS) of Central Govt. up to a maximum Limit of 10 % of salary, allowed separately.
   - U/S 80CCC: Max. Rs.1,00,000 for pension plan of any approved life insurance Co.
   - U/s 80CCD: Deduction @ 50% of amount invested in equity share under *Rajiv Gandhi Equity Scheme* for a new retail investor subject to maximum Rs.25000.
   - U/S 80D: Health Insurance: *Amount paid towards* Health insurance premium and preventive health check up to Rs. 15,000 for self / life partner / children and additional amount up to Rs. 15,000 for parents, Rs. 20, 000 in case of senior citizens)

   As per *DTC Bill 2010*, only 5 schemes such as GPF, PPF, NPS, Life Insurance *(Annual premium should be equal or less than 5% of sum assured)*, Health Insurance are allowed as tax saving scheme with tax model EEE; so all future investment only in these schemes would be a good idea for saving of income tax.

2. By expenses: Expenditure made towards Tuition fees and repayment of principle of housing loan, can be claimed as deduction from income u/s80 CCE under overall limit of Rs.1.5 Lakh and expenditure made towards payment of interest on education loan taken for self, spouse and children for higher studies in any subject after schooling, can be claimed as deduction u/s 80Ewithout any upper limit.

3. By acquiring House property from borrowed capital: Housing Loan can be taken for construction or purchase of house property for self-occupation. U/s 24, Accrued (interest due for payment or paid) interest on this loan can be deducted from income, up to a limit of Rs. 2,00,000 yearly. Similarly accrued interest on loan taken for renovation/ repairing of own house can be deducted up to Rs.30,000 yearly from the income.

4. By claiming for other Permissible Deductions U/c VI: If you are eligible for any other deductions allowed under chapter VIA [Pl. see pg 51] then tax can be saved by claming the eligible deduction along with relevant documents.

5. By giving donation: Donations given to approved institutions (U/S 80G) and Political parties (U/S 80GGC) [Pl. see page 55],are eligible for deduction from taxable income.

4 Housing Finance Scheme

Construction / Purchase of house by taking housing Loan are the best possible way to save income tax. Housing Loan can be taken for the following purposes:

- Purchase /construction of a house or Purchase of plot for construction of house
- Renovation / Extension of house
- Selling of old house & purchasing of new house
- Conversion of higher interest loan into lower interest loan

Permissible Deduction on housing loan as per section 24 of the *Income Tax Act:*

1. Following deductions are permissible on due interest of housing loan u/s 24 of income tax, in various conditions, under the head of income from house property.

SN	Purpose of Loan Taking	Date of Loan Taken	Use of Building Property	
			Self Occupied	Given on Rent
1.	Construction or purchase of house property	Before Apr 01, 1999	Rs. 30,000	No Limit
		On or After Apr 01, 1999	Rs. 1,50,000	No Limit
2.	Reconstruction/ Extension/ Renovation of house property	Any Time	Maximum Rs. 30,000	No Limit

2. Housing Loan can also be taken from any person (friend or relative). In this case, deduction because of repayment of principal is not admissible u/s 80C; however, deduction in reference with the due interest shall be admissible u/s 24.

Loan Amount : Amount of Housing Loan is decided on the basis of your monthly income & Cost of the property, normally one can get 85 % of total cost of the property as Loan Amount. Loan Amount & Repayment period is calculated in such a way that *EMI (Equated Monthly Instalment)* should not exceed 40 % of your monthly income. Loan may be taken for a period of 12 to 15 years or up to the age of retirement whichever is less.

Co-Applicant : If your monthly income is less & you are getting a lesser amount of Loan, then you can make your relative (life-partner, son, daughter, brother) as a co –applicant & increase your Loan Amount. However, in this case only owner of the property can claim the deduction of principal & interest paid against the housing loan.

Co–Owner : It is compulsory that all the Co–owners should invest in purchase/ construction of property from their own income resources. That means all the Co–owners should also be the Co-applicants for housing Loan. All the Co–owners will get deduction & exemption in income tax for the interest and principal paid against housing Loan depending on the ratio of their investment.

Example : If A and B are the co-owners of one property, with ownership ratio of 60:40. an they have taken Rs. 20 Lakh of house loan for the property. Both are residing in the property. During the year 2010-11 accrued Interest is Rs.3 Lakh and they have paid Rs.50,000 as principal amount. What tax deduction they may get separately?

Solution: As per section 24 & 26 of Income Tax Act A will get a deduction of Rs. 1,50,000 against due interest of housing loan & under section 80C deduction of Rs. 30,000 against re-payment of principal of housing loan. Same way, B will get deduction of Rs. 1,20,000 against due interest of housing loan and deduction of Rs. 20,000 against payment of principal of housing loan. Thus, the co-owners can take benefits of tax deduction proportionate to their share.

Methods of Interest Calculation :

(A) Interest on Monthly Rest : Monthly interest is calculated on estimated principal at the beginning of every month.

(B) Interest on Annual Rest : Annual interest is calculated on estimated principal at the beginning of every year after the payment of EMI.

EMI : EMI is calculated based on loan amount, interest rate and repayment schedule. EMI includes full amount of monthly-accrued interest and some part of principal amount, so that the principal gets reduced month wise, which further causes reduction in monthly interest. Thus in EMI, the portion of principal increases while the portion of interest decreases, as the time progresses. It is advisable to take care of these issues at the time of tax planning.

Conversion of higher interest rate of housing loan into lower interest rate housing loan:

Interest rates on housing loan are of two types- *fixed & floating*. You can change your plan any time. For this you will have to pay 0.5 – 1 % processing fees / Administrative fees of the balance loan amount. If you are not satisfied from the working pattern of institution from where you have taken loan, or their interest rate is high, then you can take loan from other institution of your choice also repay the balance loan before schedule. Deductions from taxable income are permissible on this new loan also.

Land Loan : You can avail loan for purchasing of land for construction of house, but you can claim deductions on interest of loan (called as Pre-EMI) only after construction of house that too in the form of five equal yearly instalments in the coming years after completion of construction of such house.

Land Ownership : If you possess land of any relative, then also you can take loan against it and construct house & if you are the owner of that house, you can avail income tax deductions on the loan taken.

HOUSING FINANCE AT A GLANCE (Applicable w.e.f. April 1, 2014)							
Monthly Instalment (EMI) for one Lakh loan at Floating Rate of Interest	Period of Loan	ICICI	HDFC	Allaha. Bank	Canara Bank	**SBI**	PNB HFL
	For 05 Yr	2137	2137	2135	2135	**2132**	2137
	For 10 Yr	1335	1335	1333	1333	**1330**	1335
	For 15 Yr	1090	1090	1087	1087	**1084**	1090
	For 20 Yr	982	982	978	978	**975**	982

Please note that these rates are applicable for 1st year of the loan, thereafter EMI may change.

Note : Before taking any loan one should check the following:

1. Hidden charges like – Processing / Legal /Administrative / Technical / Documentation / Prepayment / Delayed payment charges etc.

2. Rate of interest, which changes frequently, so Please confirm it with the related institutions

5 Banks Fixed Deposit Interest Rate – At a Glance

Bank interest rates changes from time to time & senior citizens are paid slightly more interest (normally 0.5-1 %). So please inquire about the T&C of the bank before investing.

Applicable w.e.f. April 1, 2014

Name of Bank	180 to 364 Days	1 to 2 Year	2 to 3 Year	3 to 5 Year
Public Sector Bank				
Allahabad Bank	8.50	9.05	9.05	9.05
Andhra Bank	8.50	9.0-9.05	9.00	8.75
Bank of Baroda	7.30-8.25	9.10	9.10	9.10
Bank of India	8.00	9.05-9.25	9.05	9.05
Bank of Maharashtra	**8.50-8.60**	**9.00-9.10**	**9.10-9.16**	**9.00-9.15**
Canara Bank	7.40-8.25	9.05-9.30	9.05	9.05
Central Bank of India	8.75	9.0-9.25	9.05	9.05
Corporation Bank	8.50-9.00	9.00	9.00	8.5
Dena Bank	8.25-8.50	9.00-9.15	9.00	8.50
IDBI Bank	8.50-9.10	9.00-9.30	9.00	9.00
Indian Bank	7.50-8.75	9.00	9.00	9.00
Indian Overseas Bank	8.25-8.50	9.00	9.00	9.00
Oriental Bank of Commerce	8.75-9.00	9.00	9.00	8.75
Punjab & Sindh Bank	8.25-9.00	9.00	9.00	9.00
Punjab National Bank	7.50-8.00	9.00	9.00	9.00
State Bank Bikaner -Jaipur	8.75-9.10	9.00	9.00	9.00
State Bank of Patiyala	7.50-9.10	9.00-9.25	9.00	9.00
State Bank of India	7.00-7.50	9.00	9.00	8.75
Syndicate Bank	8.60-9.00	8.50-9.05	8.40	8.40
UCO Bank	8.75	9.00-9.10	9.00	9.00
Union Bank of India	8.55	9.00	9.00	9.00
Vijiya Bank	8.50	9.00-9.10	9.00	9.00
Private Sector Banks				
AXIX Bank	8.50-8.75	8.75-9.00	8.75	8.75
HDFC Bank	8.25-8.75	8.75-9.00	8.75	8.75
ICICI Bank	7.75	8.00-9.00	8.75	8.75
Induslnd Bank	6.50-8.50	9.00-9.25	8.75-9.25	8.75
Kotak Mahindra	8.50-9.00	8.75-9.00	8.50-8.75	8.50
Karnataka Bank	**8.00-8.50**	**9.50**	**9.25**	**9.00**

6 Post Office Saving Scheme (Applicable from 01.04.2013)

Scheme	Term of Scheme	Investment Amount		Interest rate applicable	Interest calculation Period	Maturity Amount if Rs. 100 is Invested	Whether investment is allowed for u/s 80 C	Whether Gained interest is tax free
		Minimum	Maximum					
NSC–VIII National Saving Certificate	5 Yr.	Rs. 100	Multiple of Rs. 100 No limit	8.5 %	Half yearly comp-ounded	151.6	Yes	No
NSC–XI National Saving Certificate	10 Yr.	Rs. 100	Multiple of Rs. 100 No limit	8.8 %	Half yearly comp-ounded	236.6	Yes	No
Public provident fund. P.P.F	15 Yr. but extendable	Rs. 500 Yearly	Rs. 1,50,000 Yearly	8.7 %	Yearly Comp-ounded	Floating Interest Rate	Yes	Yes
KisanVikas patra	8Yr. & 4 Month	Rs. 1000	No limit	8.67 %	Yearly Compounded	Double	No	No
Post Office Time Deposit	1 Yr. 2 Yr. 3 Yr. 5 Yr.	Rs. 200	Multiple of Rs. 200 No limit	8.4% 8.4% 8.4% 8.5%	Qtrly Comp-ounded	-------	YES, if term is 5 year	No
Recurring Deposit	5 Yr.	Rs. 10 per Month	Multiple Of Rs. 5 No limit	8.4%	Qtrly Comp-ounded	744.53	No	No
Saving Account	No Period	Rs. 20/50	No Limit	4 %	Yearly Comp-ounded	-------	No	Yes#
Monthly* Income Scheme (MIS)	5 Yr.	Rs. 1500	Single 4.5LakhC combined 9 Lakh	8.4 %	Interest Monthly Payable	Original Amount	No	No
Senior$ Citizen Scheme	5 Year	Rs. 10,00	15 Lakh	9.2 %	Interest Qtrly Payable	Original Amount	*Yes from 1.4.2007*	No

Notes:

* 1. MIS – Rate of Bonus - 5 % ,If a/c opened after Dec 8, 2012 to Nov 30, 2011
- Nil, if a/c opened after Dec1, 2011

2. Tax free interest in savings a/c It Rs. 10,000 u/s 80TTA

$ 3. An individual of the Age of 60 years or more may open the account. An individual of the age of 55 years or more but less than 60 years who is retired on superannuation or under VRS can also open an account subject to the condition that the account is opened within one month of receipt of retirement benefits and amount should does not exceed the amount of retirement benefits.

$ 4. After maturity, the account can be extended for further three years within one year of the maturity by submitting an application in prescribed format.

7 Public Provident Fund (PPF)

(1) Under this scheme, a person can open account in his name or his children's name or wife's name. He can also take benefit of deduction from taxable income u/s 80 C, for the amount invested in the account of his children & wife.

(2) To maintain the account every year, one has to deposit minimum Rs. 500 or maximum Rs. 1,00,000. If the amount invested in a particular account exceeds Rs. 1,50,000 in a year, then such excess amount shall be refunded, without any interest.

(3) This account can be Opened / Transferred in any branch of post office or SBI.

(4) Withdrawal of deposit before maturity once in a year is allowed from 7th financial year onwards. After the account opening year amount can be withdrawn, as per the following clause **a** or clause **b**, whichever is less.

(a) Balance in the account at the end of previous 4 years to the year of withdrawal or

(b) Balance in the account on 31st March of immediate previous year to the year of withdrawal.

For Example – If a person opens an account on or before Mar 31, 2004 then from 7th financial year, i.e., during 2010-11, he can withdraw 50% of the amount of the following clause (a) or clause (b), whichever is less (a) Balance on Mar. 31, 2007 or (b) Balance on Mar. 31, 2010

(5) If, due to any reason, minimum amount is not deposited in the year then by depositing Rs. 500 (minimum amount) & penalty of Rs. 50 the account can be continued.

(6) *Loan Facility:* Loan can be taken after 2 years and before the end of 5 years of the account opening year. Repayment of loan can be done within 36 months. Interest is charged it 1 % more than the normal rates. One can take loan many times within 5 years provided earlier loan has been repaid fully.

(7) *Continuing Account after Maturity:* Account can be continued for next five years if applied within 1 year of maturity period. This way account can be continued for a time period of 5 years or more as desired?.

(1) If any person is not closing P.P.F Account after maturity period or he is not extending the account for next 5 years, then also interest will be credited to the account periodically. Maturity value can be retained without extensions and even without further deposits.

(9) PPF Account cannot be sealed by court order.

(10) The only negative point of this scheme is that the Govt. may change the interest rate yearly.

(11) Investment in PPF is the most beneficial and safest way to save the Income tax because we can get deduction U/s 80C up to the investment of Rs.1,50,000 in a year. Besides, Interest credited on PPF account by bank /post office on total investment is also totally tax free.

8 NSC and KISAN VIKAS PATRA – At a Glance

8.1 National Savings certificate

Taxpayers generally purchase NSC for saving income tax u/s 80C but they forget to do the proper accounting of taxable accrued interest. Here are some notable points about NSC:

8.1.1 Interest accrual on NSC is taxable under the head of income from other sources.

8.1.2 Since interest gained on NSC is reinvested so interest (of first five years only) is allowed as deduction u/s 80 C. Since NSC is enchased after getting interest of sixth year so sixth year interest is not allowed for deduction u/s 80C.

8.1.3 Interest rates of NSC have changed from time to time and reduced from 12%(up to 14.01.2000) to 8.7%.

8.1.4 Ready Reckoner for calculation of Accrued Interest during FY 14-15 on NSC-VIII issue of Rs.1000

Year of purchasing	2008-09	2009-10	2010-11	2011-12 (up to Nov 11)	2011-12 (from Dec 11)	2012-13	2013-14
Interest accrued	120.8	111.6	103.2	95.5	101.1	95.6	86.8

8.1.5 Ready Reckoner for calculation of Accrued Interest during FY 14-15 on NSC-XI issue of Rs.1000

Year of purchasing	2011-12 (from Dec 11)	2012-13	2013-14
Interest accrued	105.40	99.30	89.90

8.2 Kisan Vikas Patra

There is no benefit of Income Tax while investing in Kisan Vikas Patra. The Interest accrued during the investment period is taxable under the head of other income.

8.2.1Ready Reckoner for calculation of Accrued Interest during FY 14-15 on Kisan Vikas Patra of Rs.1000

Year of purchasing	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	From Dec 11 to Oct 14 discontinued
Interest accrued	93	148	136	126	116	107	99	0

8.2.2 Central Govt has reintroduced Kisan Vikas Patra w.e.f. Nov.18, 2014. Initially, the Kisan Vikas Patra certificates will be sold through post offices, but later on they will be made available to the through designated branches of nationalised banks. Some feature are as-

- The amount invested in Kisan Vikas Patra would get doubled in 100 months or eight years and four months. This means KVPs would be giving a return of 8.7 per cent annually.
- Available in denominations of Rs 1,000, 5,000, 10,000 and 50,000 and no upper limit on investment.
- KVPs can be encashed after a lock-in period of 30 months or 2 years and 6 months. Thereafter, investors can withdraw in any block of six months.
- KVPs can be issued in single or joint names and can be transferred from one person to other persons.
- The facility of transfer from one post office to another anywhere in India and of nomination will be available. KVP certificates can also be pledged as security to avail loans from the banks.

9 LIC Policies – At a Glance

Policy (Table No)	Term	S.A. Min/ Max	Age in yrs. Min /Max	Max Maturity Age	Benefits On Maturity	Benefits On Normal Death	Remarks
New Jeevan Anand (815)	15 / 35	1 Lakh /No limit	18 / 50	75	SA + Bonus	SA + Bonus	SA on death = higher of 125% of basic SA or 10 times of annualized premium. Death benefit will not be less than 105% of all premiums paid as on the date of death
New Endowment Plan (814)	12 / 35	1 Lakh	8 / 55	75	SA + Bonus	SA + Bonus	SA on death = higher of 125% of basic SA or 10 times of annualized premium. Death benefit will not be less than 105% of all premiums paid as on the date of death.
New Money Back- 20 years	20	1 Lakh / ---------	13 / 50	70	40% of SA + Bonus	SA + Bonus	Survival Benefit 20% of SA on 5th, 10th, 15th year PPT= 15 years SA on death = higher of 125% of basic SA or 10 times of annualized premium. Death benefit will not be less than 105% of all premiums paid as on the date of death.
New Bima Bachat (816)	9/12/ 15	35000/ 50000/ 70000 for 9/12/ 15 Years respectively / --------	15 / 66/63 /60 for 9/12/ 15 years respectively	75	Premium + Loyalty Addition	SA + Loyalty Addition (after 5 policy year)	Survival Benefits = For policy term 9 years: 15% of the Sum Assured at the end of each of 3rd & 6th policy year Survival Benefits= For policy term 12 years: 15% of the Sum Assured at the end of each of 3rd, 6th & 9th policy year Survival Benefits = For policy term 15 years: 15% of the Sum Assured at the end of each of 3rd, 6th, 9th & 12th policy year
Anmol Jeevan II	5 / 25	6 Lakh / 24 Lakh	18 / 55	65	Nil	SA	Term Insurance till Rs 24 Lakh.
Amulya Jeevan II	5 / 35	25 Lakh / ---------	18 / 60	70	Nil	SA	Term Insurance above Rs 25 Lakh

SA = Sum Assured PPT =

Note: You should always opt accidental rider which gives additional Accidental SA in case of any mis-happening due to accident

10 Health Insurance policy – Apollo Munich Optima Restore

Optima Restore from Apollo Munich Health is a family floater (as well as individual) health insurance plan that gives protection for entire family on payment of a single premium for a sum insured (SI). The sum insured floats among the family members insured. It provides 100% restoration benefit (automatically reinstates the basic SI in case it exhausts during a policy year). Moreover, in case of claim-free year the company will increase the basic SI by 50% as no claim bonus (NCB), further for second claim free year there will be another NCB of 50% of basic SI (i.e. in to100% of basic SI as NCB on 2nd claim free year).

Key Benefits:

- Exclusive health insurance Company, Covers the entire family and provides saving on premium
- Cashless claims over 5000 hospitals in over 800 cities
- Automatically restoration and up to 100% No claim Bonus (explained above)
- Pre-hospitalization: for 60 days prior to hospitalization
- Post-hospitalization: up to 180 days post-hospitalization
- No sub-limit on Room Rent and Daily cash for Choosing shared accommodation
- All Day care and domiciliary treatments covered
- Accidental coverage from the day of commencement of the policy
- Organ Donor Covered
- Emergency Ambulance up to Rs. 2,000 per Hospitalization
- E-opinion in respect of critical illness: one opinion per policy year
- Generally no medical check-up required up to the entry age of 45 years
- No third party administration (TPA), direct in-house settlement

Eligibility

- Maximum entry age - 65 years, Children - 91 days-5 years can be insured with parents, Renewal- Life Long.

What is covered?

- Medical expense incurred as an inpatient during hospitalization of more than 24 hours
- Medical expense incurred for pre-hospitalization and post- hospitalization
- All-day care treatment facility (24 hours hospitalization not required)
- Pre-existing diseases (PED) are covered after completion of 36 months

What is not covered? (Permanent Exclusions)

- Expenses arising from HIV or AIDS and related diseases
- Abuse of intoxicant or hallucinogenic substance like drugs and alcohol
- Pregnancy, dental treatment, external aids and appliances
- Hospitalization due to war or an act of war or due to nuclear, chemical or biological weapon and radiation of any kind
- Non-allopathic treatment, congenital diseases, mental disorder, cosmetic surgery or weight control treatments and Treatment availed outside India

Exclusions

- Pre-existing diseases (PED) are not covered till waiting period of 3 years
- Any treatment within first 30 days of cover except any accidental injury
- 2-year exclusion for specific diseases like cataract, hernia, hysterectomy, joint replacement etc.

If one is insured under another Insurer's health insurance policy then he/she can transfer to Apollo Munich with all your accrued benefits after due allowances for waiting periods. Deduction on income up to Rs.15000 can be claimed under section 80D of the Income Tax Act. Please read Policy wordings for detailed exclusions.
To know more you may contact Mr. Anup Maheshwari, Financial Advisor, +91 9165528922

11 Accidental Insurance - Individual Personal Accident Policy: Apollo Munich

An accident is a much unforeseen and most painful incident, therefore everybody should get accidental insurance (AI) without fail and fortunately the premiums are very low for AI. One may avail cover of Rs. 50 lakh in premium of about Rs. 500 pm. The term of AI is generally one year so you have to renew it yearly and in case of no accident you don't get any amount on maturity. We should not merge accidental coverage with other insurance policy (term insurance etc.) as separate Accidental policy covers the Accident related issues such as Permanent/Temporary, Total/Partial Disablement including death. Individual Personal Accident Policy by Apollo Munich Health is the only policy that offers sum assured of Rs. 1 crore and above however the maximum sum assured can be allowed as 10 times of the annual income of insured person. This policy provides insurance cover for all accidents across the globe.

Eligibility:

The entry age in the plan is 91 days – 69 days. And there is no maximum cover ceasing age. A child below 5 years can get coverage if either parent is covered under the same policy.

Key Benefits:

1. Accidental death – If an insured person suffers an accident during the policy period and this is the sole and direct cause of his death within 365 days from the date of the accident, then 100% of Sum assured is paid.
2. Permanent Total/Partial Disablement [PTD/PPD] - If an insured person suffers an accident during the policy period and this is the sole and direct cause of PTD/PPD within 365 days from the date of the accident, then Sum assured (SA) is paid as per the extent of disablement, such as - 100% of SA in case of loss of 2 limbs and 50% of SA in case of loss of one limb or each eye and 60% of SA in case of each arm below elbow etc.
3. Temporary Total Disablement [TTD] - If an insured person suffers an accident during the policy period which is the sole and direct cause of a temporary disability, which completely prevent him from performing each and every duty pertaining to his employment or occupation, then Weekly benefit to the extent of his weekly benefit (salary) or 1% of SA; whichever is lower, shall be payable, for maximum 100 weeks.
4. Broken Bones [BB] - Lump sum Payment as per the scale provided in the policy in the event of a Fracture of a bone due to an accident.
5. Accidental Inpatient Hospitalization [AIH] - If any Insured Person is hospitalized because of an Accident during the Policy Period as an inpatient, they can claim a reimbursement of the Medical Expenses max up to Rs.50,000.
6. Other benefits – Benefits such as Emergency ambulance Charges Rs.2000, Education fund 10% of SA max. up to Rs.20,000, family transportation 1% SA , max up to Rs.1 Lac and expenses on blood purchase etc. can also be availed through the policy.

Some Exclusions (Please refer to the policy document for details):

a) Any Pre-existing Condition or any complication arising from the same
b) Intentional self injury, suicide or attempted suicide, while sane or insane
c) Any psychiatric or mental disorders
d) AIDS and/or infection with HIV venereal disease, sexually transmitted disease or illness,
e) Any Insured Person's participation or involvement in naval, military or air force operation, racing, diving, aviation, scuba diving, parachuting, hang-gliding, rock or mountain climbing
f) Accidents arising or resulting from the insured person(s) committing any breach of law with criminal intent
g) The abuse or the consequences of the abuse of intoxicants or drugs and alcohol
h) War or any act of war, invasion, act of foreign enemy, war like, civil war, public defense, rebellion, revolution, insurrection, military or usurped acts, chemical, radioactive or nuclear contamination
i) Pregnancy or childbirth or in consequence thereof
j) Congenital internal or external diseases, defects or anomalies or in consequence thereof
k) Treatments rendered by a Doctor who shares the same residence as an Insured Person or who is a member of an Insured Person's family
l) Any non-allopathic treatment

To know more about the policy you may contact Mr. Anup Maheshwari, Financial Advisor, +91 9165528922

12 New Pension System (NPS)

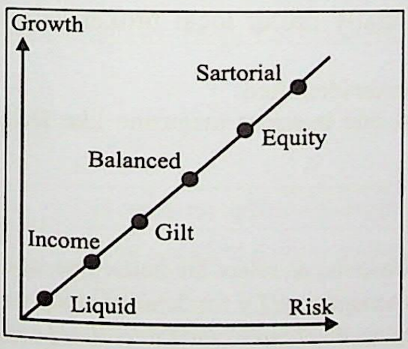
Pension reform is a major initiative undertaken by the Government of India to provide income security after retirement. New Pension System (NPS) has been introduced by the Central Government on Jan 01, 2004, and is being regulated by Pension Fund Regulatory and Development Authority (PFRDA).The NPS for Govt. employees has been operationalised in 2007- 2008 by appointing 3 Pension Fund Managers SBI, UTI and LIC.

- NPS is the least cost pension system in India and probably in the world. NPS has unique *Permanent Retirement Account Number (PRAN)* for each subscriber.
- This scheme has already been made mandatory for Central Government employees who joined their services on or after Jan 01, 2004 (except the armed forces). Most of the state governments have also joined NPS for their employees, who joined their service on or after Jan 01, 2004.
- New Pension System has been made available to all citizens of India from May 1, 2009. Subscriber should be a resident Indian having valid identity proof and address proof (KYC compliant) and age should be 18 to 55 years on the date of application.
- NPS is a low cost portable Pension . For Individuals there are multiple Fund Managers such as SBI, UTI, ICICI-prudential, KOTAK-mahindra, IDFC, and Raliance Capital with multiple investment options after for different ratio, of equity and debt.
- The monthly contribution from the employee is 10 percent of the basic and DA as be paid by the employee and matched by the Central Government. However, there is no contribution from the Government in respect of individuals who are not Government employees.
- Under the NPS, an employee will be entitled to exit only at the time of retirement at the age of 60, however at least 40 % Pension wealth would be used for purchasing annuity from a life insurance company approved by the IRDA. In case of Government employees, the annuity should provide for pension for the lifetime of the employee and his dependent parents and his spouse at the time of retirement.
- Individuals can normally exit at or after the age of 60 years from the pension system. At exit, the individual would be required to invest at least 40 % of pension wealth to purchase an annuity. Individuals would have the flexibility to leave the pension system prior to age 60. However, in this case, the mandatory annuitisation would be 80% of the pension wealth. If the subscriber dies before he or she turns 60, the nominee can receive the entire pension corpus.
- PFRDA has approved the *Deferment option* for the annuity purchase at the time of exit from NPS with condition that such deferment can be for a maximum period of 3 years.
- Under the scheme, *SwavalambanYojana* Government will contribute Rs. 1,000 per year to each NPS account for the next three years. The benefit will be available only to persons who join the NPS with a minimum contribution of Rs. 1,000 and a maximum contribution of Rs. 12,000 per annum. It will be applicable to all citizens in the unorganised sector who join the NPS administered by PFRDA.
- NPS Lite has features optimised for low investment potential (min Rs.100) subscribers and is available at ultra low cost.
- As per circular issued regarding investment guideline, (dtd Jan 29, 2014), the investment shall be made as following : In Govt securities : 0-55%, Debt : 0-40%. Money market instruments -0-5% and in equities 0-15%- Shares of companies on which derivatives are available in BSE/NSE or ELSMF/ETF regulated by SEBI and derivatives shall be used to hedge and portfolio rebalancing.
- The provisions of NPS scheme are changing frequently so for more details please visit www.pfrda.org.in

13 Mutual Fund Schemes: At a glance

The Amount invested by the investors through mutual fund is invested for buying shares or debts as per nature of plan, after getting expert opinions from Mutual Fund Co (UTI/SBI/ Reliance / ICICI etc.) on behalf of the investor. Thus burden of selection of right time & right share should lie with Mutual Fund. So it will be better to start with mutual fund for the persons who are either investing in the share market for the first time or are conservative. Investment can be made as per requirement in different schemes as follows:

Liquid Fund	*Least–risk, Low-Growth.* Investments are made in call money and in short-term commercial paper/bond. Same day redemption is possible
Income Fund	*Low–risk, Low-Growth:* Investments are made in debts issued by private & Govt Companies
Gilt Fund	*Low–risk, fair- Growth:* Investments are made in debts issued by Govt Co. Returns are subject to RBI policy of interest rate etc.
Balance Fund	*Medium–risk, Medium-Growth:* Half of the fund is invested in debts & half into the shares
Tax Saving Fund	*Medium–risk, Fair- Growth:* Investments are made like balances fund. The only difference is that the invested amount up to a maximum limit of Rs. 1 Lakh can be directly deducted form income u/s 80 C of IT Act
Equity Fund	*High–risk, High- Growth*. Investment in this category is mainly into shares of different sectors like IT, infrastructure, petro, pharma etc.
Sectorial Fund	*Very High–risk, Very High–Growth*. Investments are mainly in shares of specific sector e.g. pharma fund shall be invested in medicine company's shares only.



It adjued that you Plan your investment in mutual fund according to situation the share market. When share market is on a high, investment can be switched to low risk funds like liquid/income/Gift funds, whereas when share market is bottomed out, then for should switch to high risk fund like equity sector fund. This way investment in mutual funds at proper time can yield better results than investment in bank or post office schemes, as it have more liquidity, profitability & tax efficiency. One more plus point of mutual fund scheme is that units of mutual fund can be sold/purchased at any day @ its Net Asset Value (NAV)

Provisions of income tax for sale & purchase of units of mutual fund :

- Dividend received from mutual fund is completely tax-free from Apr 1, 2003 u/s 10(30).
- Long term capital Gain from sale (after 12 moths from purchase date) of units of Equity oriented Mutual Fund, is totally tax free. Short-term capital gain of Equity-oriented Mutual Fund will be taxed at the rate of 15 % (if the units are sold within one year of purchase date)
- Other mutual funds – As per the provisions of *Finance Act 2014*, long-term capital gain arising from sale (after 36 moths from purchase date) of units of other Mutual fund shall be taxed at the rate of 20 % after considering the benefit of indexing; however units sold before July10, 2014 can avail benefit of being taxed as per old provision i.e. taxed @10%.
- A Short-term capital gain (if the units are sold within one year of purchase date) will be taxed according to normal rates of income tax.

How to choose better mutual fund : Generally, every mutual fund scheme has its own benchmark index, so one should compare the performance of the schemes with that index, i.e., NAV of mutual fund should not go down as compared to related index when market is down. Similarly, appreciation should also be better when market is UP as compared to such benchmark index.

14 How to invest in Share Market?

Shares or securities represent the smallest unit/recognized fraction of ownership in a publicly held business & debenture represent the smallest unit of lending. Both may be of various kinds. A stock exchange is an association of individual members (brokers) formed for the purpose of regulating & facilitating the buying & selling of securities. Share market operates with due recognition from Govt. under the *Securities & Contract Regulation Act 1956*, Most of the business is carried out at National Stock Exchange (NSE) (www.nse.india.com) & Bombay Stock Exchange (BSE) *(www.bseindia.com)*. Initially, the investment in share market is advisable through Mutual fund as described in p 89.

Some common terms used in Stock market

- *Book Value:* Shares are generally issued in the denomination of Rs. 10 initially but as company grows the book value of shares increases & declared at the end of FY.
- *Price*: The price which is determined by the market i.e. on which transactions (sell/purchase) takes place in the stock exchange called Current Market Price (CMP)
- *Earnings per Share (EPS):* The amount in Rs. which can be earned during last 12 months period by each share of the company i.e. EPS =Net profit / No of shares
- *PE Ratio: Price to Earning Ratio* = Current Market Price / EPS
- *P/B Value:* Price to Book value = Current Market Price / Book Value
- *OPM:* Operating Margin (OPM) indicates a Company's % of margin over total turnover.

How to start investing in share market?

- Allocate the money to be invested & decide time period of at least 2-3 years
- Select a broker of good reputation, prefer institutional like, Motilaloswal, Anandrathi, Sushil Finance, Stock Holding Corporation of India, ICICI/HDFC etc. but initially prefer local broker as per availability
- Open a Demat a/c & share transaction operating a/c with the broker identified
- Now subscribe & read minimum 30 minuts daily at least one business magazine like Dalal street/Money or newspaper like Economic Times etc.
- Watch CNBC TV (preferably between 8.30 and 10.00 a.m.).

How to start investing in primary market (IPOs) ?

- Watch how many *IPOs (Initial Public Offers)* are open to subscribe & select the better one, after consulting local broker & information you have gathered from magazine/TV for detailed study you can log on to IPO section of the web site of *(www.moneycontrol.com, www.icicidirect.com, www.capitalmarket.com)*
- After identification, collect the form from broker, watch its subscription progress from website of NSE/BSE & invest (about 20% of your fund) as per advice of local broker.
- Keep in touch with the broker(s), till allotment of shares & refund of balance amount.
- After 3-4 weeks of offering, the share gets listed in the BSE/NSE. You can make sell or hold decisions with the help of local broker/magazine/TV/newspaper etc.
- Now you have invested in share market through route of primary market.

How to start investing in Secondary market ?

- Select the stock for investment with the help of local broker/magazine/TV/news paper
- Before investing make fundamental study i.e. growth in profit & growth in sales on QoQ basis (from Last Qtr. to this Qtr.) & Y-o-Y basis (i.e., Same Qtr. of last year to this Qtr.) for PE ratio, OPM, P/B Ratio, ROE, ROCE etc. & compare it with the same group of other stocks. You can also avail the facility of portfolio management offered by brokers.

15 Where to invest for children's future ?

Prior planning, savings & investments are essential to get the as adequate return for child's education. Let's say if you require Rs. 16 Lakh today for education expense for Doctor (MBBS) then after 15 years the same education would cost you Rs. 67 Lakh (considering 10% education inflation). It seems to be shocking but proper planning will help you to achieve that in long term. The sooner you start the investment, the higher will be the return Moreover one should regularly invest the surplus money.

In the whole process choosing the right instrument is a very essential part. You should keep in mind that the whole idea is to achieve your goal along with assessing the risk-reward component. By Investing in Equity one can maximize their return. For this the best way is to select a good mutual fund. Investment in Mutual funds will give you diversification along with a professional expertise (as a Fund Manager manages your account). You always have the option of investing a lump sum; however, to start with a monthly saving and investment through a *SIP (Systematic Investment Plan)* in Mutual Funds is a good tool to grow your invested amount. Either you can make a portfolio in the mutual funds (which needs to be reviewed) or else you can directly invest in a Child Fund, which will be hassle-free for you so as to get your planned target amount.

There are mainly 2 mutual funds offers investment plans specially for children as :

- HDFC Children's Gift Fund
- ICICI Prudential Child Care Plan

These are open-ended balanced mutual fund scheme designed specially for planning of child's higher education and marriage expenses. Lock- in period is other 3 years or age of children as 18 years whichever is earlier.

S.N.	Particulars	HDFC Children Gift fund Inv.	ICICI Child care Gift Plan
1.	Investment option – SIP/lump sum	Yes	Yes
2.	Free Accidental cover to parent	10L	Max 5L or 10 times of unit purchase
3.	Entry age	Less than 18 Y	Less than 18 Year
4.	Investment ratio - Equity	40-70%	65-100%
5.	Investment ratio – Debt	30-60%	0-35%
6.	Past Performance (as on Dec. 1, 2014)		
7.	Average yield 1 year	40.6%	53.5%
	Average yield 3 years	24.8 %	28.9%
	Average yield 5 years	19.5%	15.5%
	Average yield 10 years	17.4%	15.7%
	Average yield since inception	18.31%	18.75 %
8.	Month of Launch	Mar 2001	Aug 2001
9.	Asset (as on 30 Nov. 2014)	728 Crore	301 Crore

To know more, you may contact Mr. Anup Maheswari, Financial Advisor, on +91 91655 28922

16 Rajiv Gandhi Equity Savings Scheme(RGESS)

The Union Finance Minister approved a new tax saving scheme called *Rajiv Gandhi Equity Saving Scheme* (RGESS), exclusively for the first time retail investors in Securities Market under a new section 80CCG of the *Income Tax Act, 1961*, as amended by the *Finance Act, 2012*. Salient features of the Scheme are as under:

a. Scheme is open to new retail investors identified on the basis of their PAN numbers. This includes those who have opened the Demat Account but have not made any transaction in equity and /or in derivatives till the date of notification of this Scheme and all those account holders other than the first account holder who wish to open a fresh account.

b. Those investors whose annual taxable income is ≤ Rs. 12 Lakh are eligible under the Scheme.

c. The maximum Investment permissible under the Scheme is Rs. 50,000 and the investor would get a 50% deduction of the amount invested from the taxable income for that year.

d. Under this scheme, those stocks listed under the BSE 100 or CNX 100, or those of public sector undertakings which are Navratnas, Maharatnas and Miniratnas would be eligible. Follow-on Public Offers (FPOs) of the above companies would also be eligible under the Scheme. IPOs of PSUs, which are getting listed in the relevant financial year and whose annual turnover is not less than Rs. 4,000 Crore for each of the immediate past three years, would also be eligible.

e. In addition to above investment in *Units of Equity Oriented Mutual Funds* (MFs) that have RGESS eligible securities as their underlying and are listed and traded in the stock exchanges and settled through a depository mechanism are also eligible.

f. To benefit the small investors, the investments are allowed to be made in instalments during the *three years* in which tax claims are made.

g. The total lock-in period for investments under the Scheme would be three years including an initial blanket lock-in period of one year, commencing from the date of last purchase of securities under RGESS.

h. After the first year, investors would be allowed to trade in the securities in furtherance of the goal of promoting an equity culture and as a provision to protect them from adverse market movements or stock specific risks as well as to give them avenues to realize profits.

i. Investors would, however, be required to maintain their level of investment during these two years at the amount for which they have claimed income tax benefit or at the value of the portfolio before initiating a sale transaction, whichever is less, for at least 270 days in a year.

The calculation of 270 days includes those days pursuant to the day on which the market value of the residual shares /units has automatically touched the stipulated value after the date of debit.

j. The general principle under which trading is allowed is that whatever is the value of stocks/units sold by the investor from the RGESS portfolio, RGESS compliant securities of at least the same value are credited back into the account subsequently. However, the investor is allowed to take benefits of the appreciation of his RGESS portfolio, provided its value, as on the previous day of trading, remains above the investment for which they have claimed income tax benefit.

For the purpose of valuation of shares, the closing price as on the previous day of the date of trading will be considered so that new investors are certain about their debits and credits into the account.

17 Postal Life Insurance Scheme (PLI)

Postal life insurance scheme was initially started on Feb. 01, 1984 for Post & Telegraph Employees. Only after looking at the benefits of low premium & more profitability the scheme was extended for the employees of defence sector / Railway/ Govt./ Semi Govt. / Nationalised bank/ Public Sector. Postal department Deputes Development officers/ Divisional officers for promotion of the policy. Investments made in postal insurance scheme are deductible (Max. Rs. 1,50,000) u/s 80 C. & Maturity amount is tax-free.

Policy	Policy Period Min/Max. (Yrs)	S,A, Min/Max	Age in Yrs. Min/ Max	Max. Maturity Age	Benefit on maturity/ on normal or accidental Death	Remarks Rate of Bonus / 1000	
						2005-06	2010-11
Endow-ment Policy	14 to 41	20000 / 10 Lakh	19 / 55	60	S,A, + Bonus + Terminal Bonus	Rs. 77	Rs70
Whole Life Insurance	36 to 41	20000 / 10 Lakh	19 / 55	Premium Stopped after 60 Yrs. Of Age	S,A, + Terminal Bonus	Rs. 96	Rs. 90
Convertible Whole life	31 to 41	20000 / 5 Lakh	19 / 50	50, 55, or 58	S,A, + Bonus	For first 5 Yrs. After Change	Rs. 90 Rs. 70
Money Back	15 or 20	20000 / 5 Lakh	19 / 40/45	60	S.A. + Bonus	Rs. 75	Rs. 65
Joint Life Insurance	5-20	40000 / 5 Lakh	21 / 45	45	On death of any one partner S.A. + Bonus + Terminal Bonus	Rs. 77	Rs. 77

18 CREDIT CARD

A Credit card is also called as *plastic money*. Dinners Club, VISA, Maestro and American express are a few brand names which are generally seen on their respective credit cards. The credit cards are generally issued in 3 categories, namely – Platinum/ Gold/ Silver.

1. Credit cards are issued to adults (Max. 65 Yrs) having min. Rs. 72,000 Yearly income.
2. Credit Limit is decided on the basis of 3 Cs of the applicant – Character, Capacity & Credit.
3. Please look for following points while selecting a credit card.
   Annual fees : Normally from Rs. 0 – Rs.1200
   Grace Period : Normally 30 – 50 days.
   Rate of interest : 2.5 % - 3 % Per month (40-45 % Yearly)
   Joining fees : (Rs. 100-300), Add-on cards fee (Rs.150-600)
4. Accident / Life / Baggage insurance & purchase protection cover are provided with credit cards on payment of nominal premium monthly.
5. Credit cards are used for a given amount (if full amount is not paid) then by paying 5% of total amount due, credit can be forwarded to next month. On the balance amount 2.5 to 3% per month interest is charged. If cash is withdrawn from credit card then 2.5% processing fee is charged extra. towards cash advance.

Note: T&C of credit cards from different banks can vary from time to time.

19 How to Invest in GOLD

1 Interesting fact about gold:

- South Africa produces 72% of the world gold production whereas India products just around 0.3%.
- India, the world's largest single market for gold, consumes 880 tonnes annually of which 90 % is in the form of jewellery; contributes 20-25% of world's total gold production.
- Ayurvedic medicine in India recommends gold powder and pills for many ailments.
- Gold is indestructible. It does not tarnish and is also not corroded by acid except Amalraj
- Gold has aesthetic appeal. Its beauty recommends it for ornament making above all metals.
- Gold is so malleable that one ounce can be beaten into a sheet covering nearly a 100 sq.ft.
- Gold is so ductile that one ounce of it can be drawn into fifty miles of thin gold wire.
- Gold is an excellent conductor of electricity; a microscopic circuit of liquid gold 'printed' on a ceramic strip saves miles of wiring in a computer.
- Gold is so highly valued & dense that a smuggler can carry gold of Rs. 50 Lakh in his shirt.
- The demand for gold hovers at about 50% more than the available supply every year.
- The conventional methods like touchstone and the contemporary karat meter can indicate the purity at the surface level only

2 Why should I invest in Gold?

- Gold still represents the ultimate form of payment in the world
- Gold is the standard by which the value of anything is assessed; it is universally accepted.
- It is considered a Global Asset Class
- It's a good hedge against Inflation
- It has Low Volatility as compared to Equities & Store of value
- *Gold shines when everything else falls apart at late be*. An Excellent diversification for your Portfolio
- Gold is one of the few financial assets that is not linked to a liability. It can provide 'insurance' on the value of traditional asset during periods of financial, economic and social turmoil. Gold has been a safe refuge when the value of other assets were greatly reduced Therefore adding gold to a portfolio may help improve risk adjusted returns or reduce volatility for the expected return.

3 Options of investing in Gold :

Gold is acquired and stored in the form of Jewellery, Bars, Coins, Gold Deposits, and Gold Accumulation Plan, Warehouse Receipts and also in now exchange traded Gold Mutual Fund.

4 How to select better option for investment in Gold ?

a. *In Ornament:* One should purchase *hallmark Jewellery*, as necessary to fulfil the social, religious customs & beauty needs. Ornaments of gold are the only wearable, mital which have any resale cost.For investment purpose, in place of jewellery, gold mutual fund are advisable because resale of jewellery, non-hallmark or hallmarked, causes a loss of 15-20% or 10-15%, respectively, on account of making charges & impurity of joints.

b. *In exchange traded Gold mutual fund*: This may be a better option for investment in Gold as issued by UTI it has the following advantages:

- *Cost effective:* Investor can invest at the price replicating the International Price. No making charges, storage cost & Insurance cost the involved.
- *Secured and transparent:* Each unit of Gold will be of 99.5% purity and held by Mutual Funds with full insurance and no lending of this Gold is allowed.
- *Liquidity:* Investor can easily sell the Unit at National Stock Exchange (NSE).
- *Ease of operation:* No physical delivery of Gold is required and Investor can buy and Sale as small as 1 unit i.e. 1 gm of Gold from NSE
- *Tax efficient:* No Wealth Tax. Long term capital gain if units are sold after 36 months of purchase.

5. What is Hallmarking?

Hallmarking records the proportionate content of various precious metals in jewellery. BIS launched the Hallmarking scheme in India in April 2000 in collaboration with the World Gold Council. The decision to make hallmarking of gold & silver jewellery has been made mandatory from Jan 2008.A hallmark consists of five components, i.e.

- The Bureau of Indian Standards Logo
- Assaying and Hallmarking Centre's Mark
- The Fineness number (corresponding to given cartages

Percentage of Fineness	Code	Cartages
99.9 %	999	24 Carat
95.8 %	958	23 Carat
91.6 %	916	22 Carat
87.5 %	875	21 Carat
75 %	750	18 Carat

- Year of Marking denoted by a code letter and decided by BIS (A-2000)(B-2001)(C-2002)
- *Jeweller's mark:* The marking is done either using punches or laser marking machine.

6. Provision of Income tax related to Investment in Gold:

- As per provisions of Income Tax Act, anybody can have Jewellery of Gold @ 500 gram per Married woman, 250 grams per unmarried woman & 100 grams per male member without any detailed records, treating this Gold as Woman wealth.
- If gold in the form of Jewellery, coins etc. is sold after keeping in possession for more than 3 years, then the Gain will be treated as long term capital gain & will Income Tax @ 20% will be chargeable if indexing benefit is accounted for or @ 10% as the case may be. If period of possession is less than 3 years, then gain will be treated as short term Capital Gain and will be charged as normal Income.
- Wealth Tax is also chargeable for Jewellery and coins but not for Gold Mutual Fund.

7. Fixing of price of Jewellery:

If rate of 24 carat (Code 999) is Rs. 10,000 per 10 gms then rate of 22 Carate (Code 916) Gold will be 91.6% of Rs. 10,000, i.e., 9160 for 10 gms. Now, add making charges/10 gms of Jewellery. Hallmarking Jewellery requires costly metals for joints so making charges of hallmarked jewellery are high.

8. Rate of Gold & Silver since 1925:

As on 31st March	**Rate of Gold** Rs.per 10 gms	**Rate of Silver** Rs. per Kg	As on 31st March	**Rate of Gold** Rs.per 10 gms	**Rate of Silver** Rs. per Kg
1925	18	61	1990	3200	6433
1930	18	46	1995	4658	6179
1935	30	58	2000	4395	7765
1940	36	48	2002	5010	7875
1945	62	110	2004	6065	11770
1950	99	160	2006	8490	17405
1955	79	142	2007	9395	19520
1960	111	185	2008	12125	23625
1965	71	280	2009	15260	21700
1970	184	521	2010	16590	27250
1975	540	1012	2011	21090	56600
1980	1330	2655	2012	28140	56500
1985	2130	3955	2013	30125	54300
1 Tola = 11.664 Grams/1 Once = 28.35 Grams			**2014**	**28511**	**42838**

20 Using & Demant Account

Documents related to shares, mutual fund, bond etc. are converted electronically & credited into demat account. This procedure is called *Dematerialisation.*

- Demat Account is just like a bank account, the only difference is that instead of rupees one can deal with shares units of mutual fund & Bond etc.
- Demat accounts are opened through depository participants such as SBI, ICICI, HDFC, IDBI or stock holding corporation of India etc.
- For sale / purchase of shares, demat account is compulsory
- While selling shares have to be transferred into share broker's demat account. For this, one has to the make authorisation for broker at the time of opening of A/c) and give it to depository participant
- While purchasing one has to give demat account no. to the share broker, so that the broker can transfer the shares into one's demat account
- Normally following charges are payable for demat account.

  a. A/C opening fee

  b. Annual Service Charge

  c. Transaction Fee.

  (i) Buy (% of Transaction Value)

  (ii) Sale (% of Transaction Value)

  Since rates are changeable so check before investing.

  d. Dematerialisation charges are generally Rs. 2-3 per certificate but courier charges are Rs. 25 – 30. So the total charges may be around Rs. 30.

  e. Generally Rs. 0.50 per ISIN *(International Security Identification Number)* per month is charged as custody charges. For example, if one has shares of 10 companies, then custody charge will be Rs. 5 per month.
- There are some other charges depending on services usfule. Before opening a demand account, one should check for the services, charges, quality of service & credibility of the bank.

21 Using Debit Card

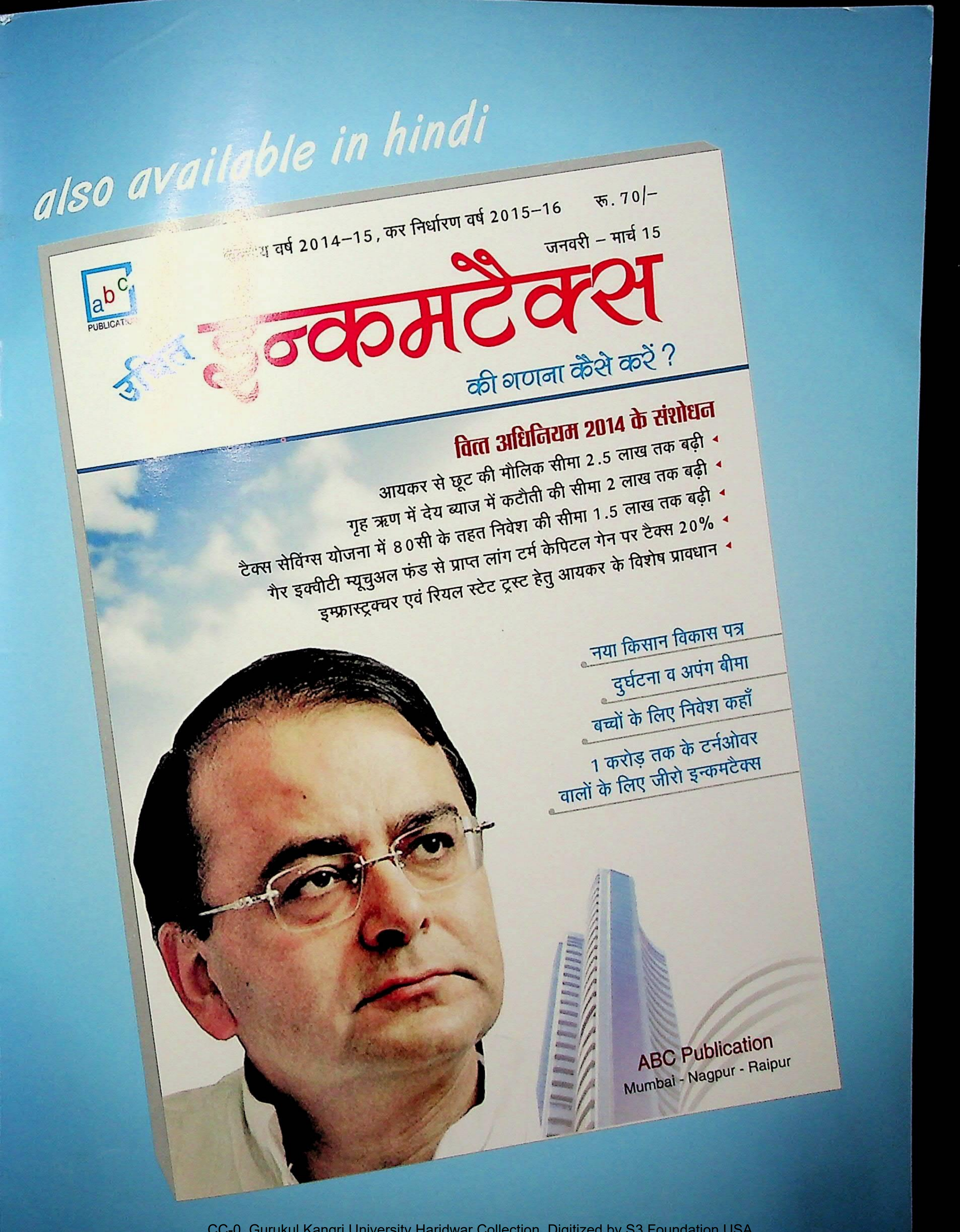
Debit card, also a form of plastic money, is directly related to bank account. These are issued by banks only. VISA, Electron and Maestro are a few logos which are generally seen in debit cards issued by different banks. These are mainly of two types:

(1) Direct debit card:

These are linked online with account just as ATM cards. After purchasing put the card in a terminal fixed at the shopon , entering PIN & amount is debited from the account.

(2) Deferred debit card:

These are like credit cards, as transactions can be done Offline. Shopkeeper scans it on shop terminal & debits the account.


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